NATIONAL PRODUCTIVE CREDIT

By the same Author

THE PEOPLE'S CREDIT

FREEDOM IN FINANCE

BROADSHEETS ON NATIONAL FINANCE

NATIONAL PRODUCTIVE CREDIT

by

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DEDICATED

TO

MY DEAR WIFE

MILLICENT

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INTRODUCTORY NOTE

SIXTEEN years ago when the Great War was but half-way on its devastating course, I wrote and published a book entitled *The People's Credit* in which I reviewed the economic situation as it existed then and offered certain suggestions the use of which would, I ventured to assert, be the means of averting an otherwise inevitable financial crisis and crash.

In an introductory note I wrote: "The purpose of this work is to promote the extension of a credit system which, although rendered indispensable by the magnitude of our commercial operations, nevertheless, whilst confined within its present limits, bears hardly upon the vast majority of those upon whom it ultimately depends, those whose activities constitute in the main the national and Imperial life, and the extension of whose activities would accelerate the development and enhance the prosperity of the British Empire as a whole, throughout all grades of our Imperial people. Should some who are seated in high places in the sphere of economic thought, deign to take notice of the doctrine here expounded, they may dismiss it with the stigma that the economic argument upon which it is based is entirely fallacious. To them and to all serious students I would urge that there are economics AND economics, and the time seems to have arrived for a national and Imperial stock-taking in economic practices, and for considering whether we have not too many broad principles interpereted by narrow minds, and too few narrow principles interpreted by broad minds.

Economic principles may be too wide for the promotion of the welfare of the British national and Imperial unit merely as such. That is the point of view from which I have written. Specious contrary arguments may very easily be advanced from other points of view. But the reader in his consideration of these may be reminded of the game of the pea and the

thimbles. The important question for the novice confronted by the expert is always which thimble the pea is under. The pea the reader may regard as the economic question. The various thimbles may be any one of the following:—

(1) Economics as Economics, or Exchanges (called by Whately 'Catallactics'), treating generally of Nature, Labour and Capital in their relation to human wants, the wants of all mankind.

(2) Economics as Industry, wherein land, labour and capital become parts of systems of processes by which family, nation or Empire is furnished with economic goods.

(3) Economics as Business, wherein the factors of numbers 1 and 2 are used for the purpose of producing revenue in either money or terms of money.

The comparatively free and rapid evolution of the Empire into a gigantic economic organism (without prejudice to world development), self-developing and self-supporting in all respects in both peace and war, which my doctrine has for its natural objective, should further limit its mere academic discussion.

As a matter of business which concerns the daily affairs of every member of the British Empire, whether in these isles or elsewhere, there is no graver economic fallacy than to suppose it to be in the interests of the nation or the Empire at large to fetter those who have vital stakes in the country or the Imperial area by making those very stakes so much unavailable capital except by favour of a financial community as represented by financiers, bankers and mortgagees who advance stake-owners credit, not cash, upon high interest and onerous terms, and have the right to call for repayment in cash or credit at a time when the lenders are in control of the credit and not a tithe of the necessary cash exists. In the great unsought crisis of self-preservation that has now befallen us in which the good fight is being fought as best it may, the muscles of the Empire cannot fully or freely develop whilst that economic fallacy hampers their movements."

Those words were written in 1916 and the subsequent years have in no wise modified but rather increased the danger I foresaw and strove to avoid.

Now in 1932, the tragic hour I feared has arrived in which, for the lack of the sound and just money and credit scheme outlined in 1916, the fate of the nation and of the Empire is in the grip of a hand which, though withered, has yet potency enough to destroy that which it grasps.

It is the accepted principle that currency depends on debts. That is only half a truth. The vital qualification is missing.

The debts must be good, and debts to-day are almost wholly bad.

Good debts, that is, debts for values, truly exchangeable and truly received, make for sound currency. Debts for *values not* truly exchangeable and *not* truly received, make for unsound currency.

Unsound currency passes for a time, then it collapses. That is, the whole edifice of bad debts which unsound currency has helped to construct and upon which, in turn, it has been constructed, breaks down. We are on the verge of that collapse to-day.

So, despite the fact that the proverbial eleventh hour for reform has been reached and even passed, I yet hope that there may be time and the will of those responsible to put into practice, for the country's salvation, the scheme which I have promulgated in the past and which is set forth in greater detail and elaboration in this present volume.

O. S.

July 1932

NATIONAL PRODUCTIVE CREDIT

CHAPTER I

WAR AND FINANCE AND PANIC LEGISLATION

THE financial disturbance caused by the outbreak of the Great War is not fully described here, but enough is written to indicate that our financial system, as a thing apart from the Government and what the Government stands for, momentarily collapsed; and that it was the exercise of powers by the Government, not the financial system itself, which gave what Hartley Withers calls "a wonderful proof of the enormous strength of England's monetary power."[1]

The August Bank Holiday of 1914 will be a memorable one in the annals of British banking. The long queue of noteholders who had assembled on the preceding Saturday for the purpose of requiring the Bank of England to fulfil its promise to pay on demand golden sovereigns for its crisp paper notes was no longer visible. The tellers of the Bank had carefully counted out the coins and passed them over to the anxious recipients until closing time. Then came the memorable Bank Holiday which enabled the Government to stifle at its inception what might have been the greatest financial panic in history. The banks throughout the country, without exception, were kept closed by the Government for three days instead of one. During those days millions of Treasury notes were printed, in denominations of £1 and 10s.; a law was made investing these notes with the quality of legal tender and when the banks reopened their coffers were filled with paper notes where the gold should have been. These notes had been printed against gold which was in the pockets of the people,

[1] *War and Lombard Street.*

not against what, properly, should have been a reserve of gold held by the Bank of England. When later, the people's gold was paid into the banks, it was retained. Thereafter, withdrawals were met, not in gold, but in Treasury notes. As Treasury notes went into circulation so gold went into the Bank of England. Thus, good English sovereigns gradually took the place in the Bank of England of the pieces of printed paper called Treasury notes, which the Bank, importuned by the great financial interests and at the behest of the Treasury, had issued. In effect, the Government had to take gold from the people for more reasons than to meet a collapse of credit, and that is how it did it. It was as if the Government had said to the people, "Hand over your gold and take this paper!" The patriotic public duly accepted the position with equanimity, and did not mind, even when the Treasury notes became so plentiful as to have nothing behind them but the Government's word. It took that word to be as good as gold. In this year of grace 1932, sixteen years later, the word of the Government is no better than a bond, which is not as good as gold. Everyone will understand that it was necessary to maintain the credit of our banks, bills of exchange and finance, or accommodation bills, in any way whatever, provided that the Government was responsible and the method effectual. The point one would like borne in mind is that the credit of the banks was maintained in reality, not with what was in the hands of the banks but with gold, and ultimately other valuables in the pockets of the people.

That the credit of the banks had to be maintained in the national interest none could deny. That the banks of the United Kingdom should be enabled to meet their obligations by means, however extraordinary, is a cardinal principle upon which the good name of the nation depends; and not alone its good name, but its means of subsistence. If the people are necessary to the banks, it is equally true, in a financial age, that the banks are necessary to the people.

It is as important to the nation as to the banks, that the credit of the latter should be upheld, for no deeper reason than that if the banks were called upon to meet their engagements, they would not be able to do so because securities had depreciated and had become unrealizable, the bulk of the money into which they were supposed to be convertible having no real existence and no true substitute.

Following quickly on the closure of the banks came the closure of the Stock Exchange, the market where these securities in normal times are bought and sold. In no previous crisis had the Stock Exchange been so vital a factor in the financial situation. Never before in such troublous times had the securities listed there represented so many millions of pounds. Had the collapse in prices of these securities been allowed to take its course, under the pressure of forced sales, every individual, group and institution dependent for solvency upon the maintenance of their fair exchange-value, including all the banks in the country, would have fallen, bringing down with them vast interests of every conceivable kind. This was written sixteen years ago; it can be repeated to-day with equal reason and greater force.

The magnitude and appalling character of the influence on the welfare of the whole nation exercised by the Stock Exchange in such circumstances is entirely due to the fact that the securities dealt in on its floors represent in paper form what is now the bulk of the wealth of the nation. But it is wealth that is becoming exchangeable more and more for paper only.

To round off these heroic efforts to avert absolute chaos in the business world other steps were necessary. A moratorium was declared with the effect of holding business obligations in a state of suspended animation. How strange that this is still descriptive of the situation in 1932!

All the experts called upon advised such financial measures as would save them from ruin, no doubt believing, with some

reason, that their own interests must be the general interest. High honours were conferred upon the most distinguished of their class as an expression of the nation's gratitude! The nation is always grateful for everything, but it was naturally grateful for the preservation of the financial interests whose paper claims and promises were the counters of the general interest which our financial system allows to be monopolized and regulated, expanded and contracted, raised and depressed from time to time, according to financial fads and fancies; an inversion of the order of things that would prevail if the real bearers of the burden the system entails had the use of their own economic rights! These desires of the magnates of finance are not necessarily arbitrary and selfish. As the intricacies of the economics of business are as wide as the Earth and as deep as the Sea, financial desires may rise like little crests on the waves of a more or less troubled sea, in every variety of shape, size and situation, and in conditions either inherent in or quite outside their source. But however these desires are produced, their collective effect is to form the character of industry and assign to it place, extent and personnel. There is hardly a business concern throughout the realm which does not as a consequence pay tribute to our financial community. It appals one to think how much of the work of the nation—of master and man alike—is absorbed in the payment of interest alone. In money-measure it is hundreds of millions of pounds sterling—at least it was so in 1916; but it is now, in 1932, thousands of millions. Yet the money tax is negligible compared with the conditions the system creates. In misdirected vitality and lost opportunities the effects are incalculable. The best years of the lives of countless employers and employees are spent under the deadening financial drain and regulation, until experience, knowledge and enterprise lapse into senility. Beside the poverty earmarked by Henry George which marches shoulder to shoulder with Progress—the poverty of the poor—there is a poverty of the rich, the rich in intellect, health and real property

rendered poor by the fixity and uselessness of their riches in the form and circumstances in which they hold them.

There are owners of broad acres whose lives are a constant struggle to make ends meet. There are university men whose attainments have no value in the positions low down in the social scale, into which circumstances have driven them and whose whole time is occupied in their struggle to earn a bare living. There are men of affairs whose progress is arrested through all their years of vigorous manhood by the conditions of the only method upon which they can finance the business upon which their knowledge and capacity entitle them to embark, conditions that in effect condemn them to the state of mere wage-earners, notwithstanding their responsibilities as principals, until they join the unemployed or become outcasts of society. Henry George saw some of the truth but little of the remedy when he wrote: "The present century has been marked by a prodigious increase in wealth-producing power. The utilization of steam and electricity, the introduction of improved processes and labour-saving machinery, the greater subdivision and grander scale of production, the wonderful facilitation of exchanges have multiplied enormously the effectiveness of labour."[1]

If the causes cited have multiplied enormously the effectiveness of labour, they have also multiplied enormously the power of finance. The power of finance, not the wealth of financiers, must be curtailed. The financial system should be based on general utility. The effectiveness of labour, skilled or otherwise, the labour of brains or of brawn, is dependent upon opportunities, whether in new countries or in old, whilst opportunities are almost wholly dependent upon command of money or valid money-substitutes. The financial community has control, however, not only of both, but for all practical purposes of the basis upon which nine-tenths of the money-substitutes insecurely rest. They have no legitimate claim to

[1] *Progress and Poverty.*

this basis, but they derive control of it from the financial system which has grown up to meet the requirements of business and which has been accepted without question as to its true character and influence. The War blinded us to its evils. This system is one phase of "The wonderful facilitation of exchanges," which is a fact and a principle to be welcomed with open arms by civilized mankind. It is compatible with the satisfaction of human needs in every land, but to place this system under the heel of a financial ring is a grievous wrong. To allow it to remain so must bring about universal bankruptcy.

CHAPTER II

THE ORIGIN OF BARTER, EXCHANGE AND USURY

THE function of exchanging is the life of trade; commodities and services related to commodities are the body and soul of trade; and the financial system should be an eternal spring of life to trade.

Our financial system and the facilitation of exchanges have developed together. Commodities, services and ownership of them, together with ownership or control of the means and opportunities for effecting exchanges are the main factors in the great world of trade and commerce.

Mankind must be sheltered, clothed and fed by some contributory efforts from all of them. Houses do not build themselves, although primitive man sometimes in his wanderings found caverns already made. Clothes will not make themselves, although the skins of animal carcases in prehistoric times, as in the present, are fashioned to cover human frames. Nourishing food does not travel unaided to hungry lips, although in some sunny lands it may be easily gathered. Besides these necessaries of life, mankind have many desires to be gratified, wants to be supplied. The refinements of civilization, the coarseness of barbarism, the pomps and vanities and vagaries of fashion, the freaks of eccentricity and the ministerings to human frailty make objectives of daily effort as countless as the stars in the sky. None of these things supply of themselves. They all require and respond to properly directed effort.

As a whole the efforts expended in their acquisition comprise the sum of work or business. An individual in an advanced country like our own requires so many things that no one man can supply himself with all he needs and desires. He cannot alone make his own clothes, plough his own lonely furrow, rear and kill cattle, catch fish, build his own house, cook his

own food and perform the numerous other operations of modern daily life. Were all this incumbent upon him, he would find life impossible. What man does in these awkward circumstances is this: by sheer force of circumstances he becomes a part of groups or communities of mutual helpers. One man who is clever at making fishing tackle makes a lot of it and gives or barters it away to anyone who will give him something that he wants in exchange for it. He must live amongst other people who possess what he needs and who need fishing tackle; or he must find a way of reaching them. He may give some of his stock-in-trade as wages to a man who will carry his surplus stock to those people who want it, where the carrier may then dispose of both this surplus, and his own share, in return for the commodities most needed by his employer and himself. The tackle-maker parts with the ownership of a portion of his tackle to the carrier in exchange for the carrier's time and services expended in the marketing of his goods.

What the tackle-maker was always doing throughout these activities whenever he made an exchange was to give a real product for a real product. He had to work for his product. He was not free to give a symbol of it and so obtain what he needed himself without giving a real product in exchange. Fundamentally sound exchanges can never mean anything but exchanges of real products for real products.

The carrier may one day talk of the eagerness with which other frequenters of the market accept beautiful shells in exchange for the goods they bring. But the tackle-maker says shells are useless to him because they cannot be used as food, clothes and shelter for himself and his dependents, including those whom he now has to maintain through an increase in the demand for his tackle, for the gathering of the materials from which his tackle is made. The carrier who is now familiar with the market, knows that the maker is wrong in his views about the shells which, he has observed, may, although in

an indirect way, provide not only food, clothes and shelter, but many other desirable things. The carrier has in fact learned of a product that will buy all other products; for beautiful shells are a product of nature; as the best product of all for this purpose—gold—is also a product of nature. One day he exchanges all his fishing tackle for shells and gives some of these for the various kinds of goods that he is expected to take back. He obtains a more pleasing variety of these, more flour. less sugar, the right quantity and kind of fruit and so forth, neither too much nor too little of anything. Hitherto he had been obliged to give a full set of fishing tackle in exchange for every different kind of commodity desired, obtaining less flour for one than he needed, and for another more fruit. He had been unable to get both fruit and flour for one set of tackle, because the man who had the fruit had no flour and the man who had the flour had no fruit, whilst part of a set of tackle was no use to either. But the shells, being small and separate, enabled him to give a certain number for a definite quantity of each kind of commodity and he found that after providing himself with all his needs, he still had quite a number of shells in his possession. When this had occurred a number of times he found himself with enough shells with which to purchase a caravan for himself. Into this he collected for the market, not only fishing tackle, but other commodities for his return journey also required in exchange.

It is common knowledge that after he had thoroughly disorganized direct barter, the carrier eventually gathered all the beautiful shells in quantities, qualities and positions that suited him, made them into a "pile" or "bank," put them under lock and key—henceforward he is designated a "banker"—and allowed no more exchanges in trade to take place except by his permission, and against printed or written promises to pay the bulk of which eventually neither he nor anyone else had the power to fulfil.

The poor carrier, who himself began work with no skill

in making anything, gradually made himself rich, indeed so rich that he is now looked upon with great respect not unmixed with awe. He knows so well how to take care of his valuable shells and is occasionally so kind in lending some for a consideration called "interest" to those in temporary need of a few, or an order for a few, that when he announces that he is giving up carrying and exchanging or trading and is retiring from business, but is willing to take charge of the shells of other people as well as of his own, in a safe depository where there is no risk of their being stolen, everybody who finds any stray new shells brings them to him at his place of safety which he calls his bank. Here he learns by experience and a little intelligent direction that few of his depositors ever require the use of their shells, and that it is the people who have no claims upon him for shells who seem to have the greatest desire to use them. So that when all his own shells are promised by loan at interest in the way which has helped to earn for him the gratitude of his neighbours, he continues the good work by lending promises of the deposited shells to several times their amount and in that way makes handsome profits out of resources not his own. In doing so he commits no breach of trust; at least not intentionally, because he considers the deposits still quite safe and safety alone is guaranteed. This, in making a loan, he takes great care to ensure. He requires the borrower to deposit securities in the shape of claims to actual property more or less readily exchangeable for even more shells than he promises to the borrower. These claims he exercises if the borrower fails to repay the borrowed shells. The property so obtained he exchanges for a few shell promises that can be fulfilled, made by some new party out for a bargain.

The original borrower in this final exchange has been made to lose a large amount of real property for a small amount of promises, through the glorified carrier having been allowed to take the real value out of his (the borrower's) side of the

exchange. Property can thus be made worthless in the interests of Banking Credit. The gain is special; the loss is general. The effort to take the gold out of Legal Tender Currency in making our currency intrinsically worthless is gradually making all our values worthless through loss of exchangeability.

Unless every exchange is made an exchange of real product for real product, the process of exchange must come to an end; and finance, which must have one product to rest indubitably upon, must come to an end also, bringing the carrier down to a state of penury to which, by his ingenuity, he brought the original tackle-maker.

When the banker or glorified carrier discovers that he may lend claims to shells on the same advantageous terms as those on which he lends promises of shells, so general does the use of claims upon shells become, that the claims supersede them. The giddiest height to which the most ambitious banker—or Shall he now be called financier?—may attain is to the lending out at interest of vast numbers of written claims to shells that have no existence. All that exists as the financier's asset is a common belief that they exist. But quite apart from the financier something other than the written claim, something that the financier has no claim upon, an equivalent of substance, does, or could, exist. Exactly what this is nobody ever finds out, because, whenever the claims are about to be exercised in a universal demand for non-existent shells, the law-maker steps in and stops it. Acting as the representative of the owners of that something, the descendants of the makers of fishing tackle, the skilled producers and accumulators of real property (not paper), the operation of which is the means whereby the whole community lives, he commands a written claim on all this property to be issued against the claims for non-existent shells. It is as if the original carrier, not skilful enough to make the original fishing tackle, fitted only to carry the results of skill to market, contracted personal debts without the wherewithal to pay, and then, upon his being pressed for payment, a law-

maker stepped in and gave his creditor a claim on fishing tackle belonging to his master. Kentuckian justice truly! But how unwise the creditor is to support any policy which must destroy the utility and exchange value of all fishing tackle—all property!

Through the abuse of a false principle in war finance the producing community in Great Britain has been thus subjected to the payment of interest and principle on tens of thousands of millions of promises to pay; yet the property and its productiveness which represent the only ultimate means to pay are being rendered lame, halt, blind, diseased and futile.

CHAPTER III

HOW CREDIT HAS BEEN POISONED AT ITS SOURCE

THE evolution of the carrier into the financier, like the evolution of society generally from the simple to the complex, fills more time than the life of one individual. Our carrier is therefore not one man but a succession of men each varying his usefulness to fit the changing stages of economic or business development. But usefulness in this life generally consists of control over medium of exchange. In the early exchanges, which are no more than simple barter of commodity for commodity, his legs—"Shanks's pony"—are the medium of exchange. Corn is exchanged for fishing tackle on the two commodities being brought together. Nothing but this service, except the act of exchanging, effects the exchange. The carrier is a medium of exchange in the sense of being a means of transport. He is essential in that capacity. The vast network of railways covering all lands, the mercantile marine ploughing all seas, the whole organization of motor transport and transport workers, are a development of this simple but useful function performed by him. Were his control over exchange which he eventually acquires, as a financier, achieved only by or through exchanges of actual commodities, it would be legitimate. Transport develops into a necessary branch of production and transport workers into real producers. But princes of transport are not necessarily financial magnates, although financial magnates may be largely interested in their operations. The carrier, without financial insight, who develops along carrier lines, instead of along the lines of financing carrier business, sooner or later falls under the control of the carrier with financial insight who uses carrying merely as a ladder to be climbed and abandoned when the higher plane of pure or impure finance is reached with its

lighter work and subtle power over workers. Then, if that carrier is considered superfluous, he is easily driven out of business.

However, a medium of exchange is not understood in the economic sense as a means of transport. A medium of exchange, in sound finance, is rather a measure of value as value has been standardized in the weight and fineness of a precious metal like gold. The measure is a sort of middle term with which everything capable of being exchanged may be compared, something for which everything else may be exchanged and which will exchange for everything else, something in terms of which all modern exchanges are effected. This something in the story of our Excelsiorlike carrier apparently changes at different stages in his development. First it is shells. Then it is written claims upon shells or scraps of paper. Finally, it is claims upon shells which are believed to exist but do not exist. In an unsound system it is something which could not exist. But is the medium of exchange on paper nothing, because nothing is necessary? In direct exchange or barter a pen-knife may exchange for a necktie with an intermediate nothing. In the indirect or roundabout exchanges of modern business it may be desired to exchange apples for doormats. Where a common measure of value exists, the apples are sold in the apple market, payment is made by cheque drawn upon a bank in favour of the seller for the measure of value equivalent to the value of the apples. But is it feasible that chains of exchanges could continue to be effected with a measuring or intermediate commodity of nil? It is not feasible because all exchanges in general business must be of product for product; the chain must break if any link is a fiction. The measure of value, the money of account, which is named on the cheque should truly and for all time, represent a real product. It should represent a certainty of one thing or a true equivalent of that thing; such a chain of exchanges should not be like a chain of argument—a Sorites with all the intermediate propositions fictional; in other

words it should be standardized gold or a product standardized in value by gold.

The payee of the last cheque finds the sum named owing to him by the bank. Neither seller, whether of apples or doormats, sees any medium of exchange except a piece of paper with writing upon it. The bank itself does not see any valuable medium beyond mention of one in its books. Before the cheque system became established, when a written claim upon what might be non-existent was not acceptable in exchange for good goods, a medium of exchange having real value had to be in evidence. This at one time and in some places was the shells of our carrier. In other times and other places, heads of cattle, pretty beads, pieces of ivory, gold, silver and precious stones. These commodities were not only spoken of quantitatively as a measure of value but had to be used in concrete form as the actual medium of exchange. Suppose a field were valued at so many head of cattle, and the owner of the field desired to exchange it for gold ornaments, he would first exchange his field, not for a written claim upon a cattle-bank, but for cattle themselves, which he forthwith would exchange for gold ornaments. Therefore when the medium of exchange consisted really of something actual and intrinsically valuable, it was not only talked about in, but formed part of, the transaction. It was a very cumbersome, troublesome part. The man who had parted with his field for cattle had parted with the only place in which he could conveniently keep cattle; and unless he found an owner of gold ornaments quickly, and one ready to exchange such ornaments for cattle, he became seriously embarrassed and not a little worried. He could never be happy in business unless he began such a transaction at the end of it. A herd of cattle on one's hands, which one has no use for, which one cannot part with except to a particular kind of person who cannot be found and for which one has neither place nor food for keeping them, is not a convenient medium of exchange. Only the fundamental principle in exchange of real

commodity for real commodity could make such inconvenience tolerable. Necessity being the mother of invention, it is not to be wondered at that ingenuity was taxed to the uttermost in the simplification of media of exchange until a little piece of paper of no intrinsic worth, folded in the vest pocket, would serve for exchanges of any kind and amount. What an improvement on the difficulty of handling a herd of cattle which certainly could not be folded up and carried in the vest pocket! And although for love of gold many would delight in, they would soon tire of, constantly steering cartloads of gold through large daily transactions. Our modern medium of exchange before the war was ostensibly gold, silver and copper, and legal tender paper based upon these and exchangeable into them in certain proportions at any time. Gold alone had become the standard on which we could base our measure of exchange-value. It was a standard wrongly supposed not to fluctuate in its own exchange-value. The exchange-value of gold is something quite different from the nature of gold or gold as a standard of value. But that is by the way. The thing to remember is that gold is a real product and not a mere promise of one. Now, although our ostensible medium of exchange consists of these factors under the general name of Money, the real medium, except for small hand-to-hand transactions, consists of written documents drawn up in terms of money, called money substitutes, credit instruments, cheques, bills, drafts, money of account, bank and Treasury notes. As much as possible of the reputed medium of exchange, in the form of gold, is now kept out of circulation and stored away in the cellars of the Bank of England. If it were really the medium of exchange, therefore, this action on the part of the Bank of England in taking it out of circulation would limit in both magnitude and number the exchanges the people might otherwise effect. Instead of this it only limits trade or exchange to the kinds and quantities that those in control of paper substitutes for gold desire. But the Bank of England being

friendly to the country, having come to imagine that gold is really not necessary as a medium of exchange, has merely rung the changes and issued credit instruments of paper consisting of claims upon the gold instead of the gold itself. The gold is called a reserve against the outstanding claims upon it. Other banks do likewise, putting the major portion of their gold, however, into the cellars of the Bank of England instead of into their own. Then the gold was unjustifiably multiplied into far more than its so-called value by the issue of legal tender paper, unregulated by commodity equivalents of gold and then into many times the face value of the legal tender paper in the shape of Banking credit or money of account. The place of metal money has, thereby, been taken in the national and international exchanges by this paper. The mode of its issue, by thousands of millions, is to producers and traders at interest and commission, payable mostly to wizards who have wonder-worked these millions into being. Do the people, I wonder, understand that these millions are impossible of liquidation into the gold for which they are vainly believed to be exchangeable? They are millions which in reality consist of that vain belief transformed into a thing called credit. And this credit is a thing which the nation for its own sake, not for the sake of the wizards, cannot allow to collapse and which is therefore a national responsibility as well as the only, and all too unreal, medium of exchange. And what better medium of exchange, it is said, could there be than scraps of valueless paper bearing a few written or printed words? It has all the necessary characteristics. It may exist in large quantities, be in universal demand and admit of division into any desired units. It may accommodate itself to every conceivable variety of conditions of exchanging. It may be uniform in quality and, owing to its ease of reproduction, it has the attribute of perpetuity. Finally, it may be portable almost without limit, for it unites large representative value and small bulk in a way that cannot be equalled for convenience when carried

about and used for exchange in different places. The last named quality gives credit instruments as a medium of exchange a very great superiority over gold and silver. And for this reason as well as others, such as elasticity, credit instruments by the common consent of traders have usurped the position of gold and silver in the world's commercial exchanges. But beware! It has not the essential character of being an intrinsic and true representation of one real and indispensable product—gold, the real product is omitted by sleight of hand, and by an overlapping process which makes disaster sooner or later inevitable. It is fallible in the extreme.

Credit then, outside of comparatively small and personal transactions, is not only our medium of exchange, but the latest and the best that a so-called enlightened civilization has devised. And control of this medium of exchange, supreme in utility, is the State-supported monopoly of a small section of the community—the financial section. Think of it!

The stages in the growth of this modern medium of exchange, stages corresponding with the development of modern civilization, may be briefly restated as a conclusion to this chapter. It must be understood that although the last stage embraces the overwhelming majority of the business transactions of the nation, all the prior stages still persist in more or less extent, overlapping and interlacing one another as the prevailing circumstances direct.

1. Goods are traded, i.e. exchanged for goods.

This is the stage of barter, and the beginnings of distribution. Fundamentally it is the essence of trade.

2. Goods are traded or exchanged for services and goods.

This is the origin of transport, redistribution, and the primary stage in the division of labour. The master worker begins to depend upon a carrier. Wages are paid in kind.

3. Goods are traded for services and money; and these services and money again are traded for goods. But the money itself consists of a selected "good," which world-experience has proved should be gold.

This is the first appearance of a medium of exchange in the economic sense, with its equally important function of measuring value.

Money may take on various forms, e.g. cattle, beaver-skins, beads, shells, silver, gold, legal tender, etc. The money must always be a product intrinsically valuable in itself. Wages are paid in money. When wages are paid in paper they may not really be paid at all.

4. Goods and services are traded for money; money for credit (bank credit); credit instruments (notes, cheques, legal tender) are traded for services and goods.

Here the carrier as well as the master worker has become subordinate to the financier as controller of the economic medium of exchange. Wages are paid in both money and credit. The financial writings of a Walter Bagehot, delightful as literature, go no further than this stage of the problem, where gold is both the standard of value and the basis of credit.

So little did Walter Bagehot realize the coming magnitude of the credit system or its real basis that he wrote in *Lombard Street*, page 36:—

> "In consequence all our credit system depends on the Bank of England for its security. On the wisdom of the directors of that one joint-stock company it depends whether *England shall be solvent or insolvent*."

But the truth has been revealed by the response to the call to arms that whether England shall be solvent or insolvent depends on the will of its people, voiced by its Government and backed by the people's property, over which the Bank of

England should have but small control. And not alone does the solvency of England not depend upon the Bank of England, but the solvency of the Bank itself depends neither upon its gold reserve nor its securities nor on both, but on the people also, for the solvency of the Bank is no more than a part of the solvency of the people.

5. Goods and services are traded for (*a*) credit instruments; (*a*) credit instruments are traded for (*b*) credit instruments:

   (*b*) credit instruments in reverse order are traded for (*c*) credit instruments; and so on until (*d*), (*e*), (*f*) or (*g*) credit instruments are traded for services and goods or otherwise (as is about to happen), a complete collapse of exchange or trade and means to pay occurs.

By means of credit instruments, credit as the supreme medium of trade or exchange is at this stage supplied. Moreover, into the terms of the measure of value used in credit instruments is translated *ad lib.* the supposedly inexhaustible credit of the nation, not alone for normal trading operations, but to the fullest extent required by financiers for any purpose whatever; so unerringly are opportunities seized, so true is it that "chance is a fine thing."

Hartley Withers wrote:—

> "Too many finance bills of the wrong kind were out and Lombard Street saw the fact so clearly that for some weeks it rang with the cry that there must never be any more finance bills of any kind at all. This exaggerated view is already discredited, and there is good reason to hope that opinion will settle down to a sensible midway path, taking the finance bill as a quite legitimate and necessary convenience, dangerous only when abused and distorted."[1]

[1] *War and Lombard Street*, ch. v, p. 111.

It *has* been both abused and distorted.

Beside credit, our method of trading has made comparatively negligible all other media of exchange. Readjustment of its use in trading and reversion to the fundamental principle of money in trade or exchange, are the only alternative to a situation that is carrying this country and the rest of the world to economic destruction.

Both money and credit still lie in the mouth of the product as certainly as they lay in the mouth of the fish which the Nazarene told His disciple to catch, as the means with which their taxes were to be paid.

Whether this Divine consciousness of pervading facts conveyed a parable or something more simple, it implied in principle nothing impossible to general human economics.

CHAPTER IV

THE MENACE TO MEANS TO PAY

FINANCIAL credit is belief—belief that admitted claims to value represent value, are as good as value, are exchangeable for value, or for what will procure value—belief that receipt of admitted claims to value is equivalent to value received—belief that claims to future payment based on the promise of a person of property, or in possession of claims to property, or reputed on some kind of evidence to possess property, or claims to property, or endorsed by such person or persons, are certain to be met in a form of payment both acceptable and valuable to the claimant—belief to the extent of parting with actual property, in exchange for such a promise of future payment—belief in the resources, ability and disposition of individuals, private firms, public and private companies, and Governments to fulfil financial obligations; and belief that nothing will be introduced into, or left out of, the financial system to thwart the fulfilment of financial obligations. Where such belief is unlimited and warranted, credit is unlimited and sound; where no such belief exists, or the belief is not warranted, there is no credit that will not eventually collapse.

In a sound financial system the only sound credit must arise from genuine savings derived from the production of wealth.

The business of a modern bank is "to deal in credits"; it is a market for the purchase and sale of credits. It is an institution the function of which is to assist in the exchange of goods by facilitating the use of credit as a medium of exchange. It is with credit as with any saleable commodity—the existence of a market where it may be bought and sold increases its use because a demand for it is always assured."[1] But it cannot

[1] "Money and Banking," vol. vii, p. 233, of *Modern Business*, issued by the Alexander Hamilton Institute, New York.

be itself a commodity nor safely exist without a commodity the extinction of which will also extinguish the credit.

Practically all credit, apart from that of mere shopping on a small scale, is handled by banks, and in so far as they are the machinery for handling it, rightly so.

Bank credit is dealt in upon a greater scale than any other; it is created at very little expense; it is very convenient in form and it yields a handsome profit from payments for the use of it. That profit should not come from arbitrary credit expansion. Something cannot properly come from nothing.

The deposit receipt is a document issued by a bank promising to repay on demand, or specified notice, an amount of legal tender in exchange for value received by the bank. It may have received the value in the form of gold, or other cash or credit instruments, or all of these. The bank takes the value and issues the claim upon itself in exchange therefor. In this case it allows the depositor interest on the amount deposited. This is a price which it pays to him for the use of his money, as he understands, seeing that no sane person could imagine that payment would be made with any other intention.

Deposits received, upon which no interest is paid, except by special arrangement, are treated as the purchase price of that amount of the bank's credit, payable on demand in a way prescribed by the bank. Thereafter the bank duly acknowledges up to the amount received what are called cheques or demand orders upon the bank to pay forthwith to a particular person, or to the order of that person, or to the bearer of the cheque, or to the drawer of the cheque, i.e. the depositor himself, the sums which the depositor orders the bank to pay. To such depositors a cheque book containing blank forms of such orders, each one bearing the Government stamp, is given, usually for convenience and in the interests of method rather than from necessity. The same purpose can be served by a scrap of paper properly drawn. The withdrawal of these deposits is gradual in both time and amount, seeing that so few people are paying

in and withdrawing the same amount at the same time. The bank has the use of more or less of these deposits for more or less time practically free of charge.

The credit instrument in the case of these deposits is the cheque or its substitute used or not as the purchaser of the bank's credit may desire; sometimes never used, as the sum of unclaimed balances proves; unclaimed balances of purchase price of its credit paid to the bank and therefore retained by the bank. On any other hypothesis this retention would be wholly unjustifiable.

In respect of all these deposits, the bank sells as much of its credit or of the right to make written claims upon its credit as it receives in value. But this is not the full extent of the credit which it sells on the strength of these deposits. Experience teaches it that not more than 15 to 20 per cent. of its depositors ever at one time, except in a crisis, wish to re-exchange the claims upon the bank's credit for possession of the real value or purchase price again. The inconvenience, loss of time and alleged futility of doing so combine to prevent it; 15 to 20 per cent. of real exchangeable value or standard value in exchangeable form, i.e. gold, is all that used necessarily to be kept, and now even this has ceased to be the practice; more paper or balances at the Bank of England having been substituted. If this were not the case the King of the Counting House would not be so powerful a monarch although he ought still to be as rich and he would certainly be more secure.

The amount of legal tender retained by a bank with which to meet its liabilities to those who have purchased its credit is called its reserve.

The reserve of the Bank of England, unlike that of other banks, is kept in gold, and it aimed at a ratio of 40 per cent. before the war to its liabilities. It dealt in pounds sterling, each of which was a piece of gold weighing 123·27 grains of standard gold. So long as there was no more legal tender than the Bank or the people held in gold, the money and

credit system was sound and tended to be kept sound by the system itself.

When the Bank of England, on the guarantee of the Government, announced in the memorable August of 1914 that it would discount all approved bills accepted before August 4th, it really lent its credit upon the security of the bills. It did not destroy the system.

The bill of exchange can act its part nobly in a national crisis, whilst the cheque, the bank note, the bank draft, the Treasury bill, the Treasury note and the promissory note payable on demand, all have their parts in the grim and strenuous play. The difference between a promissory note and a bill of exchange is mainly that of usance. A bill is drawn usually at three or six months' sight, the intention being that it shall be met, in either three or six months (with three days' grace) after the date it bears. The three or six months' period is its usance. Shakespeare uses this word in *The Merchant of Venice*, where he makes Shylock say of Antonio:—

> I hate him for he is a Christian;
> But more for that in low simplicity
> He lends out money gratis and brings down
> The rate of usance with us here in Venice.
>
> Act I, Scene 3

Letters of credit are instruments which figure largely in the operations of many banks, and are means by which banks sell their credit in various countries.

The Post Office sells credit in the form of post office orders, telegrams and postal orders. These are issued for legal tender only, i.e. Bank of England, Ireland or Scotland (credit) notes, the new Treasury notes, or current coin of the realm. The Government nowadays sells credit in National Savings Certificates.

If matured National Certificates were legal tender, they could be employed in the manner of three comedians on the stage, who are debtors of one another to the extent of £2 each, to liquidate the debts by passing one round twice until it had

reached the original owner a second time. A paper sovereign would serve the same purpose; but no real trading would have taken place. Cheques can pass banking credit round in like manner.

A system of creditor and debtor with real trading left out, however, is an economic or financial system which cannot last.

A credit system is nevertheless necessary to expansion of trade. That is why the credit system has been developed. That is why it must collapse when trade reaches complete stagnation.

The credit said to be given by the retailer to his customer is really not the credit of the retailer, but is the credit of the customer for which the retailer has given or exchanged his goods. He has given his goods for the customer's implied or verbal promise to pay; a promise seldom recorded in writing. He has exchanged his goods for a promise, in the good faith of which he believes. Some people have been known to resent indignantly any tendency of tradesmen to require cash down in every transaction, even refusing payment by cheque. This is regarded by the customer who vaguely sees credit in its true light as a reflection upon his or her credit, and it really is so, although a tradesman with visions of long-standing accounts and dishonoured cheques in his mind's eye may well be excused for his temerity. Among some traders in America there is a credit union which collects evidence of the credit of residents in various areas. It is supported by shop-keepers, to whom confidential information is given upon inquiry. In this way the credit of a customer is seldom wrongly impugned, whilst those whose credit is good get as full use of it as they ever wish to make.

The more enlightened tradesmen offer discount for prompt payment by cheque, which has the same effect as if they drew a bill on the customer, obtained his acceptance of it and discounted it at their bank.

Subject to no financial credit being in existence except against gold or power to produce goods on a gold-equivalent basis, the reliable credit customer, who need not restrict his consump-

tion of purchases of goods to a portion, or even all, of the cash he has immediately in hand, thereby investing his purchases with irregular alternations, instead of almost unvarying regularity, is far more useful to his suppliers in the conduct of their business. He enables them to forecast their requirements in purchasing from the wholesaler. In satisfying all his needs, he enlarges the quantity of their sales and therefore of their purchases. Experience teaches them the quantity of credit which he uses both in time and amount, and corresponding credit arrangements are made by them with their wholesalers, who appreciate better the large order purchased on credit which is sure to be redeemed with exchangeable value, even after a protracted period, than the small order for which cash is paid. This is soon discovered by retailers. The nearest approach to a great success in business on a cash basis is a number of separate, comparatively small businesses run by one central organization which uses its own credit in its purchases on a large scale but sells only for cash. No large emporium doing a large business can become, or continue, large on a strictly cash basis whatever its pretensions to the contrary. And a large business has in all but exceptional circumstances a great advantage over a small one. As J. A. Hobson truly says: "The better facilities of credit employed as a rule by large firms must be accounted a separate economy. This economy is partly a productive advantage implying a greater facility of expansion in business operations, partly a competitive advantage implying greater freedom in processes of buying and selling, and greater power in tiding over difficulties."[1]

He might have said that common-sense business people with large enough credit have no difficulties of a financial character.

He might also have said that every common-sense business person would always have abundant credit in a credit system in which the credit was really sound.

[1] *The Evolution of Modern Capitalism*, sub-sec. 3, p. 130.

All the credit instruments utilized in the foregoing transactions, and others which cannot be analysed for reasons of space, have reference to what is termed circulating credit as distinct from non-circulating credit. The instruments by which the latter form of credit is made specific and applied consist of mortgages, debenture bonds, debenture stock and other such paper which are secured by (i.e. charged upon) property. This paper is not very readily saleable or exchangeable for instruments of circulating credit. The credit of real property is certainly non-circulating, and that it should be so is the canker in our economic system which ought to be dragged out by the roots as soon as its presence is seen as well as felt. The great landowners are all feeling it now. Is there no cash in the mouth of their fish? They will find an abundance there if they will look for it in the right way.

The mortgagee or debenture-holder is contingently the real owner of the premises upon which he has his charge. He used to do a profitable thing in allowing the property to be used industrially by an expert productive employer and employee on payment of a certain rate of interest equivalent to rent. The employer and employee with their skill, labour and time operated the property which, unoperated, would have been valueless. They succeeded in earning the interest, but little beyond, save the means to purchase the bare necessaries of life. But huge taxation has since been imposed upon them. Progress for them, the real workers and value creators, is at an end. Their lives have become a mere grinding out of interest for the mortgagee to whom they are being driven to default. The mortgagee, if obliged to enter into possession is about to find that this will not be worth while. The credit system that will not permit of profitable use of property is about to react upon the creditor in the process of ruining the debtor. The writing is on the wall.

The most far-seeing and intelligent type of employer and employee, after quarrelling with one another for a time and discovering that neither is wronging the other by his demands,

but that both are being wronged by a third thing, which is rather a system than a person, have emigrated to, or sent their funds to, a new country, where their skill, labour, time and funds are in demand for their own sake, not merely for the sake of earning interest on property, but for the creation of such property; and this becomes their own, together with its uses, should they arrive in the new country in time. The early bird of passage catches the worm of interest in the newer lands across the sea.

The conventional justification of the interest to the mortgagee is that his capital is tied up in the property. But that is not so. He has lent merely credit, set out in terms of money in his mortgage, but under a system of credit which has no real money behind it, and perhaps only a name instead of valuable property.

It is the property mortgaged that the credit should be inherent in by virtue of its being part of the State. Why should it have to borrow at interest credit which is inherent only in itself? If the State allows the property to be used productively it can redeem its own credit instead of the credit of a mortgagee. And still the slaves to this system, the employer and the employee who make the value of the property the negotiable mortgage is based upon, work on and on, keeping it going and enabling the mortgagee to derive greater and greater benefits from its use whilst their sands of time run out, their life-force oozes away, they are replaced by younger men, and they come to look with a welcoming eye upon the prospect of a paltry pension at seventy. Britons *ever* shall be slaves until freed from the fetters of a financial system which treats a nation's employment-giving property as the "counter," and paper, which the property must perforce pay interest upon, as the "real money"!

Industrial property cannot be tied up without tying up also the employer and employee essential to its value. This tying up, instead of setting free, is a gross abuse of a true credit

system. The mortgage, and such like charges, are so made into mortgages on human lives. That is a complete and absolute condemnation of them. The credit which the mortgagee obtains upon his paper credit instrument enables him to obtain mortgages on further property and lives, limiting the progress of more employers and employees without restricting his own, enabling him to extend further and further his tax upon industry in interest, in the grooves he may force it into, and in the enslavement of its tools and materials, until employers and employees are completely under his thumb. "As 'credit' becomes more and more the vital force of modern business, the class that controls credit becomes more powerful and takes for itself as 'earnings,' a larger proportion of the product of industry."[1]

This has gone so far that the people can bear it no longer. The whole financial system in its regulation of credit tends towards the same disastrous end. It is a great system; but great as an Achilles with a vulnerable heel. Our need is to make this heel of Achilles proof against inevitable attack without transgressing the principle enumerated by Walter Bagehot, "New wants are mostly supplied by adaptation, not by creation."[2]

Credit instruments are seen to be not credit itself but the application of it to particular uses in terms of money in which it is always spoken of and is wrongly assumed to be based upon. "Wrongly assumed" is not thoughtlessly written, for there is not in the wide world more than a small proportion in real money of the amounts set out in terms of money on the credit instruments which are at present current. Nor until recently were there in existence credit instruments to represent anything like the cash measure of value of the world's property with which all the credit that can be used with hope of conversion into value must be allied. It is the exchangeable value in terms of money of the whole of such property, other

[1] Hobson's *Evolution of Modern Capitalism*, p. 255.

[2] *Lombard Street*, p. 79.

than the consumable property, which is the measure of the vast reservoir of credit available for liquefying the assets of the world. As the exchangeable value of a slice of credit evidenced in a bill of exchange or other instrument depends upon its capability of being ultimately met by real value, so does the exchangeable value of credit as a whole depend. Credit, in so far as it is anything more than belief in future payment, is therefore evidence, or should be evidence, of the existence of property of corresponding and active exchange value in terms of money and goods.

Our problem is; Why should not the nation have a freer use of its own credit, seeing that in the last resort it has to make it good?

Shylock stigmatized Antonio as being of low simplicity in lending out money free of interest, and to this Antonio's troubles with Shylock were chiefly due. In the end, however, it proved his salvation.

The people's credit, if, in fact, lent interest-free for the production and distribution of wealth to-day, would be Great Britain's salvation.

Apart from the fact that immense business development would soon absorb the wealth converted into free capital, the rise in price of securities, the finding of immediate employment and the displacement of capital for reinvestment, would restore value to hundreds of millions of investments whose loss of exchangeable value was due to inadequacy of the necessary kind of medium of exchange, in respect of general trading.

Credit finds its parallel in the application of scientific devices to industry.

The telegraph, the telephone, the steam-engine and the motor were adopted with celerity not merely because they annihilated time and distance but because they quickened the business turnover. If business must be done in conditions of slow communication and transport, it takes longer to complete every deal—time enough for bankruptcy to intervene.

Now, what quick-service is to the rapidity of the business turnover, credit is to its volume. All the traders in this country and our Colonies, who are denied the use of national and Imperial credit based on the property they own, are in effect restricted in their scale of operations by a credit system more fitted to the days of the mail-coach and the pack-horse. The extent to which they are driven to borrow at high interest, living in fear of being called upon to repay at the most inconvenient moment, is a heavy and vexatious tax on home and colonial development and seriously curtails it. The persistent denial of their national and Imperial rights in the use of their legitimate credit is a dangerous handicap in the world-race for economic supremacy. The British had a start in the race long ago, and with such vast resources they ought by now to have become first amongst the nations, with the rest nowhere. When we hear of vast transactions in finance which involve no trade at all, but a mere exchange of paper, that is "a writing on the wall."

It is indeed the lack of credit rather than of labour or general resources which is crippling enterprise amongst the many and limiting it to the comparatively few. Small producers can be made into big ones by acting on the principle that Imperial credit based on Imperial productive, though fixed, assets may be used to at least part of the amount those assets represent in terms of money. The countries of the world flying the British flag can play an abundant part, each according to its commodity-resources, in finding profitable employment for an ever-increasing population and provision of all the varied needs of the whole. This desideratum will come the more quickly the sooner this financial drag on the wheel of enterprise is removed.

The credit machine must turn out no more credit for mere financial operations. It must in future, for a long time to come, turn out Government guaranteed interest-free credit for productive, and bankers' credit for distributive purposes. This

credit must be based on machinery which can produce the means to redeem credit in general by allowing it to be written off against consumed products.

The machine stifles the expression of our general spirit of enterprise and drives our youth and skill not even to our own Colonies but to lands whose customs bar out not only goods but inefficient workers and receive with hearty welcome the bright, intelligent, skilful operative, whose loss we cannot afford. It is known that crowds of skilled workers from many parts of our country, who never come back except to fetch their relatives, have in the past been taken to America to start our own peculiar industries there. Workers must be sorely tempted when they can leave home for these better (?) opportunities. The richest country in the world ought to be able to hold them, and so it could with an enlightened system of finance. Such an exodus directly limits our possible productiveness. A time comes when every man who has gone is badly needed.

In 1911 nearly half a million people left the United Kingdom, 122,000 of whom went to America instead of to any British Dominions. Millions have need to go now.

Such a loss to this country in brains and muscle, general productive power and that consumption of goods which is the basis of trade, is a great one. It is a lame excuse to say that the absence of these workers decreases the supply of services and thereby raises the price of the reduced supply of services left behind. If they left because they had little or no work, the number of workers is not reduced, the supply of services is not curtailed, The needs of the country have been reduced, its demands limited and the scope of its trade cut down. After the operation the disease continues. In so far as emigrants went to Canada, 184,000; to Australasia, 80,770; and South Africa, 30,767, compensation is possible in increased commerce between these countries and our own, in British development under the British Flag. In so far as they went to America,

122,000 Britishers went to help this country's most virile competitor, badly needed though they are in Canada and Australia where the population averages only two persons per square mile. How much room there is for them in this country if a means of livelihood and a brighter prospect than an old age pension is assured, anyone with ordinary intelligence can perceive; but, if instead of so much room there were none, would it not pay us nationally as well as imperially to induce such emigrants to retain their British citizenship in going to our Colonies instead of to another country by affixing to such citizenship the privilege of the highly favoured credit conditions of rapid development that we alone can give? Population makes trade, commerce, nations and empires. Credit forced to create products at least equivalent to it as its only justification enables a population to make trade, commerce, nations and empires.

By loosening the fetters of our credit we can increase the magnitude of every industry we have and promote the growth of many necessary industries which we have not. And we can dispense with the starvation of our energies on the puerile savings crusade of short commons alleged to be in the interests of diminishing the imports difficult to pay for.

It will enable us to dispense with beating the big drum, Barnum-fashion, for Loans by enabling willing people to subscribe in much larger average amounts than heretofore; in enabling others to subscribe who have not subscribed at all, and still others to purchase at par what they have not now the means to purchase even at a discount.

The conversion of old War Loans and Consols into a later War Loan is the exchange of one form of paper credit into another which is supposed to have the same basis, i.e. the same national assets. But unless credit is set free on a great scale to replenish our consumption of wealth in these non-productive charges, the basis must be constantly decreasing.

Every concern productively employed should be able to get

free bank credit for the support and furtherance of its business or industry. This cannot, of course, be provided at the expense of the banks, but it could and should be done through the machinery of the banks.

We are utterly wrong in treating our fixed assets allied to human effort as a dangerous basis for our credit, and e.g. in the terms of exchange of Consols publicly acknowledge that we so treat them, by taking for granted that a market-price loss upon Consols is a real loss. We thereby publish a lack of confidence in our country itself and in the business assets from which we must produce the means of livelihood and profit of our employers and our employed. That is one way in which we create our unemployed. Why did the nation as individuals fight if not to deny that proposition and to maintain that confidence? What does the nation care for a financial system which requires such a sacrifice and which is imposing greater sacrifices as time goes by? Why must our whole financial structure soon fall to the ground and complete paralysis overtake our trade if we do not soon take the vicious circle out of our credit system? This is the reason. The whole finances of the country are resting upon a paper foundation. Paper money is the corner-stone in the Issue Department of the Bank of England. It consists of a fiduciary issue of 275,000,000 sterling, or (so-called) pounds. Over a period of time, operating through the Banking Department, this has given rise to four times its amount in Banking Credit, much of which, as resources of the other banks, in the shape of "balances of the Bank of England," has been multiplied several times over, thus enabling the total Deposits at all the banks to reach a figure exceeding 2,000,000,000 of (so-called) pounds. This is called Bank Money, or Money of Account, according to the phraseology of different writers. This dizzy height was reached some years ago. Since then it has been converted into non-productive Loans and Securities returning to the banks at every conversion. It has served in this way to create thousands of millions of (so-called)

pounds in paper, which are put to little, if any, use for the production of more wealth. Their interest and emoluments are, however, a heavy charge, year by year, upon the wealth produced by others. The absorption of other people's wealth by this gigantic credit structure is now reaching limits that the existing production of wealth cannot support. The resources of those who pay have been depleted in other ways than merely to uphold this credit structure.

Taxation has given no encouragement to the production of the extra wealth required. On the contrary, it has taken enormous resources out of the productive machinery and working funds of general industry, thus hindering and destroying the production of that wealth which is so badly needed to meet the vast obligations which the credit structure imposes on all forms of production—the most vicious taxes have been death duties on the productive portion of estates; income-tax and super-tax, which have deprived productive concerns of working funds and forced them to borrow at interest when such a course was fatal; and inadequate allowances for depreciation in taxation assessments. After nearly a score of years of this self-destructive financial policy, the cash shortage in business is becoming a nightmare, and the mortgages and debts upon all real wealth have turned owners into mere caretakers driven to despair. It should be remembered that wealth appropriated, or dissipated, at the rate of 5 per cent. per annum is entirely appropriated, or dissipated, in a score of years.

Hence, this handwriting is on the wall:—

Unless the magic of sound credit, Government guaranteed and interest-free, with its còrollary of sound money, is soon applied on a gigantic scale to a vast production of numerous kinds of new wealth, and a decrease in the charges on the existing production of wealth, then a cash-starved nation is about to default in its payments to the credit structure, to the extent of many hundreds of millions of (so called) pounds in interest per annum, with the effect of destroying, utterly, the

value of tens of thousands of millions of (so called) pounds' worth of securities, upon which the solvency of nearly all our financial and industrial institutions, great and small, depends. For our abused principles of Money and Credit in Trade and Taxation will have completely paralysed our Means to Pay.

CHAPTER V

HOW CREDIT IS APPROPRIATED BY THE FEW, TO THE DETRIMENT OF THE MANY

"THE idea of appropriation is one quite different from that of gift. As before observed, gift is based on relations of industrial dependence. 'Appropriation,' on the other hand, proceeds from a notion of superiority or control. It is the method commonly employed by Government as a means of obtaining funds for its support. It is the method commonly employed by those engaged in many forms of industrial pursuit for obtaining those things from nature which will be useful to mankind but which have not yet been reduced to the control of others. Man has certain wants which he would supply. Around him is nature endowed with all the materials which are necessary to the satisfaction of want. To make these materials available to this end, however, they must be 'appropriated'; the ore must be extracted from the mine, fish must be taken from the sea, the timber of the forest must be reduced to ownership, in forms which will be useful for supplying human want. In primitive times, among a primitive fishing people, when dried fish was used as money, the individuals of the community procured their funds by means of appropriation. Among a hunting people, skins of beaver and musk, or the hides of other animals, which served as money, were procured in the same way. To a primitive agricultural people wheat and barley served the members of the tribe for funds, and under a primitive industrial regime the metals obtained by the various members of the tribe or clan were passed from hand to hand as money, with no common stamp, design or official voucher for weight or fineness, such as is known to our modern systems of finance. When, however, commerce and industry developed to such an extent that more careful judgments and closer estimates of

value were made in exchange; when the uncertainty of weight and fineness of the coins or metals used came to be an obstruction to commercial and industrial progress; when, by common consent, some uniform standard of judgment was demanded in trade, and the coinage of money was placed in the hands of a central agency of government, which would give it character and undoubted integrity, *appropriation as a means of obtaining funds was abandoned*. The only method other than that above described as pertaining to industrial dependence was that of exchange."[1]

But the spirit of appropriation was merely scotched, *not* killed. As exchange developed in extent and intricacy until credit became its real medium, so the spirit of appropriation arose like the Phœnix out of its own ashes, appropriated this medium, and in so doing appropriated the only means worth mentioning of obtaining funds. Behind this appropriation there is still the notion of "superiority and control," and when it is threatened with disaster "the method commonly employed by Government as a means of obtaining funds" comes to its aid. But the Government alone has the right to such appropriation. In the hands of others, it is a free gift from the nation to the financial circle, and the nation can no longer afford it. A free gift which the nation in its own interests should reserve for itself, which in conditions of overwhelming world competition it cannot give, which, in the common interests, it has no right to give and which it cannot itself afford to pay interest for.

The great banking interests, in which are included financial interests of many kinds, take deep draughts out of this mighty reservoir of credit. John D. Rockefeller, on surveying the Atlantic Ocean, is said to have remarked, "What a lot of water!"—doubtless revolving in his inner consciousness the possibility of harnessing it with pipe-lines and tanks, and

[1] *Funds and Their Uses*, pp. 87–8. F. A. Cleveland, Ph.D., Wharton School of Finance and Economy, University of Pennsylvania.

giving it a loose rein at the price of oil. The great financiers must have a kindred thought in looking out upon the panorama of brain-workers and manual labourers in the cities of the north, the south, the east and the west, upon the passenger and goods traffic of the busy streets and railways, upon ships in docks and upon lines and blocks of property of all descriptions extending far and wide. Looking out on this they should have realized that to destroy it would be to destroy the credit which they deem their wealth. They own little or none of this national wealth, for they are dealers in money and credit, written in terms of money, and all that they see and hear and think is translated into terms of money. The lives and property in the prospect have their owners individually, but collectively they are mentally translated into the money-terms of that credit capital of which they represent the basis, and which constitutes a vast invisible interest-earning national credit fund which our magicians or monopolists of finance appropriate.

How vast the sums of interest annually derived from lending it to the individual owners of the collective property which supports it, none can compute. The trade of Great Britain, whether conducted for the benefit of the nation generally, or for only a section of it, has become essentially a trade on borrowed capital, credit capital provided by a financial circle which, by drawing interest and commissions upon all trading finance, manages to absorb the lion's share of the real profit that finally accrues from it. London is the great international credit centre. Its banking and financial interests, its "money (?) market" and its Stock Exchange hold first place amongst the world's financial organizations. Foreign payments are made and foreign loans are floated. It is the clearing house of the major portion of the commerce of the world. The credit it manipulates conditions world-wide business. Its financiers and their connexions in normal times dominate the sum of credit capital capable of being borrowed for trade in Great Britain and elsewhere. These credit wonders are all

worked in the name of money. Money is, however, almost a fiction to-day.

It is banking credit which really constitutes the *money* talked and written about. It is banking credit upon which the cheques are drawn. But when in a crisis all the documents based on banking credit, of which this mountainous range of paper is only a part, call for redemption in cash, it is seen that banking credit is really national credit based on national assets, for the Government is compelled to step in, accept the impossibility of immediate redemption, postpone redemption and provide paper notes and rediscounting facilities for such partial relief of the tension as seems imperative. The banks are allowed to draw upon national credit in this way, in return for services performed in the national economy, without which the national automobile of business would be shattered. On the other hand, were national credit actively used on its own base, admittedly used and properly regulated through the machinery of banks, the banks would never be reduced to inability to redeem their legitimate credit and the necessity of seeking Government aid. Besides which, the national credit automobile of business would under such circumstances carry us much farther than we can go now. How far the nation, as individuals, more than the banks should be allowed to use the national credit as a means of making business profits and promoting business enterprise seems a more reasonable question than whether the nation should so use it or not.

It is seen that besides the use of credit which is their legitimate share of the national credit, banks use, for the purpose of profit making, large slices of it, which they are allowed to annex.

The credit which, as money schemes, astounds the nation by its figures of fantastic magnitude came into existence through the war. *British Finance*, issued by a Committee of the British Association, states:—

"The enormous cost of the great European war was largely due to unprecedented inflation of credit and currency."

This credit and currency was wholly credit, the currency being always used as a basis for the further creation of credit.

That is the credit which exists as the great wealth of to-day. It is credit which was created ostensibly against wealth purchased for war purposes. But this wealth was destroyed. It is credit, therefore, which should have been extinguished as the products to which it was related were destroyed. The vast sums of money in which we talk consist, in fact, of baseless credit. The policy of putting a base under it by appropriating the real property that we have, will not do. There is not property enough, even if the policy were successful, to appropriate it by financial pressure from the present owners. To acquire it for a song, and to write down the difference between this and its true value, as a support for this war-time credit would be futile, for it would destroy business. To cause great losses in business must injure business and credit alike. Credit that has no right to exist can only be fortified by the production of new wealth as well as adding to the value, instead of reducing the value, of the wealth that already exists.

The amount of credit which is appropriated in the form of finance bills is also remarkable. "Among practical exchange men, a financial bill means just one thing—an unsecured long bill of exchange drawn by a banker in one country on a banker in another and sold for the purpose of raising money. Sometimes the drawer carries a balance with the drawee, sometimes not; usually not, the drawee 'accepting' the long bill drawn upon him for a fixed commission. Needless to say, the house abroad has to have a high opinion of the house at home, or has to be in pretty close connexion with it, before it will agree to accept its unsecured drawings to any extent.

"This is the finance bill as it is—not widely different from accommodation paper among international bankers.

"Such a process may be continued indefinitely, is being continued indefinitely, in fact, by many banking houses in

New York, who have come to regard the money to be raised by the sale of these finance bills as a part of their regular working capital.

"Where is the limit to the practice? Only in the credit of the houses concerned, in the willingness of the exchange market here to absorb offerings of their long paper, and the willingness of the London bankers to discount it when it is sent abroad. Otherwise there is no check upon the amount of finance paper that a house might put out. No mark distinguishes it from any other kind of long bill; the banker who buys it cannot tell whether he is buying a bill of exchange secured by railroad first mortgage bonds or whether it is a finance bill put out, with nothing at the back of it, to 'raise the wind.' There is no way for him to tell. His protection and his only protection is the character of the drawer and the acceptor and in his knowledge of how much of the paper there may be knocking around in the open market."[1]

With the money raised, stock may be purchased and the parties to the transaction may not have had the chance or may not have felt disposed to sell their stock before the bills become due. How then is the firm going to raise the money to send abroad to its correspondents? By renewing, i.e. selling more long bills and using the proceeds to retire the first set of long bills.

It is curious how credit may be used in this way, given two firms of repute, one on either side of the Atlantic. Pierpont Rothschild, of New York, may draw bills up to a million, or any amount in sums of five or ten thousand pounds, which are accepted in London by Lord Morgan. These bills are sold in New York for cash, or, rather, bank credit, and Pierpont Rothschild raises thereby, for purposes of the moment, close on a million pounds of bank credit. Reciprocally, Lord Morgan of London may draw corresponding bills which are accepted

[1] "Banking Practice and Foreign Exchange," vol. viii of *Modern Business*, issued by Alexander Hamilton Institute, New York.

in New York by Pierpont Rothschild. These bills are sold in London for cash, or, rather, bank credit, and by means of them Lord Morgan raises for his purposes close on a million pounds of bank credit. When the bills are due, in say ninety days, and the deals for which the two millions of money have been raised are not advanced to the stage of completion, the procedure is repeated and the bank credit raised on the new bills is used to extinguish the old. Should a financial crisis in either country occur of a magnitude that threatens to bring down the big banks and financial houses, bank credit ceases to be available, cash for such transactions was never available, and the Government, for the sake of the credit of the country, steps in to aid the tottering institutions, steps in with the credit of the people backed by the possessions of the people, proving that one of two things was really being used in this financial jugglery—either the credit of the nation or nothing at all. It was an appropriation, by bearers of great names, of part of the credit of the nation, for something tangible came out of it, and you cannot get something out of nothing—*ex nihilo nihil fit*. And it is so used to the extent of hundreds of millions of pounds, just such sum in terms of money as a limited number of favoured individuals can possibly use in the special class of deals which take their fancy.

Banking credit is alleged to be that which these bills are drawn upon, but that it is really an appropriation of national (i.e. the people's) credit, by the banks, is proved in every crisis. "Bold trading on small reserves," says W. S. Jevons.[1] But the reserves are not small when, as our latest crisis proved, they are really the credit, or part of the credit of the whole community, appropriated not illegally by the banking community, and lent out at interest to a favoured section of the community, who use it to extort further profit in excess of this interest out of the rest of the community. W. S. Jevons further states,[2] "the whole fabric of our vast commerce is found to depend

[1] *Money*, p. 320. [2] *Ibid.*, p. 321.

upon the improbability that the merchants and other customers of the banks will ever want, simultaneously and suddenly, so much as one-twentieth part of the gold money which they have a right to receive on demand at any moment during banking hours." This was true because commodities were really being allowed to exchange with other commodities on a gold basis, gold being always and truly the third commodity to be referred to for equivalence in prices in every deal. In such circumstances they could not in their own interest want the gold, for if they could have got it the handling of it would have been an enormous check upon their own trading and on that of the community. It was enough that the gold standard of value was a fact. Only by appropriation of the property to which national credit is allied could the banks ever meet, with intrinsic value, that appropriation of credit, which they have lent out, were the merchants and other customers of the banks ever to want, simultaneously and suddenly, so much as one-twentieth part of the gold money which they have (or had) a right to receive on demand. But this credit is too useful a medium of exchange, too closely bound up in exchange itself, too much the possession of a great people, to be brought into question when Government action in a crisis discloses its identity. Given the necessary balancing of commodities with commodities as the roots of our system of finance, even gold cannot be compared with the efficiency of credit, indispensable though gold may be to legal tender money. Even deliberate appropriation of our national credit by banks for the sake of profit is better for the nation than prohibition of the use of national credit. Banks are its proper machinery. Without its appropriation by them in the insistent cry for profits and dividends its utility as a medium of exchange might never have been discovered or, when discovered, properly appreciated. The value of freer use of it by its rightful owners may be gauged from the benefits which have accrued from it to the bankers and on payment of the bankers' price. The financial difficulties of merchants and

manufacturers are traceable to the necessary investment of too much capital in stock which cannot be sold quickly without loss because markets have gone against them under conditions over which they have no control. The goods have intrinsic value but are not exchangeable value at the time. This has happened to-day on a great scale through circumstances over which our merchants and manufacturers have had but little control. Unless the banks provide at such psychological moments that bank credit which is always negotiable or exchangeable, whether that which it rests upon is negotiable or exchangeable or not, bankruptcy is inevitable with its train of consequences, capital losses, disruption of organized business, discharged employees and workless employers, misery to these and their dependents in broken homes, aching hearts and pinched bodies, and creation of such English beggars as that one in the Jubilee procession who was heard to say, "I own Australia, Canada, New Zealand, India, Burmah and the Islands of the Far Pacific, and I am starving for want of a crust of bread. I am a citizen of the greatest power of the modern world, and all people should bow to my greatness. And yesterday I cringed for alms to a negro savage, who repulsed me with disgust."[1]

Enlightened bankers do not withhold credit unreasonably according to the system because the issue of credit is their means of making profits. But the country must now reconsider the question of leaving in their hands the right to decide between the reasonable and the uureasonable in every issue of credit. Even reputedly rich people find it difficult enough to obtain sufficient credit if they are outside the financial ring. The poor find it impossible. Advice to the labouring classes to save for the sake of the benefits they will derive is, under these circumstances, almost a mockery. Of course, saving is their only means of obtaining funds for the establishment of a business. After many years of "exchange of labour for wages," and of saving a surplus beyond maintenance, enough may be

[1] Norman Angell's *The Great Illusion*, p. 45.

saved with which to equip a business. Before the labourer is too old he starts the business and is allowed the use of credit measured by what the savings he has invested in the business will sell for on a forced sale. He is charged heavily for the credit both in the price of his goods and in the loss of discounts. He has already paid the higher price of the small buyer as compared with that of the large buyer. His difficulties grow by what they feed on. His stock is comparatively high priced and therefore unsought. He goes under. This should not be, seeing that his savings in the form of his business premises, and his work in accumulating the savings and in running the business, represented a portion, albeit a small portion of the national assets, to which our national credit is allied and he a worthy representative of the State which should have encouraged and helped him. Yet his savings were swallowed up in interest and charges and losses on forced sales entailed in the payment for the use of that small portion of the national credit to which he, the owner, was really entitled free, except for charges of redemption over a period of time. It is not the inability or the lack of will or ambition to run the business, or neglect of it, which has ruined him, but the lack of that amount of his own credit which would have furnished him with free working capital over a period long enough to establish himself in his business. *His savings have been swallowed up by those with larger credit than himself.* It is looking into vacancy, right over the head of the problem, to say that large financial companies, and the Post Office, and war loans are organized to facilitate saving and "furnish capital to large enterprises that give him further employment."[1] The man is old, worried and weak, and his growing son, beginning to understand, is pained, moody and angry at something that he feels to be wrong and grossly unfair; then is he fit soil for the seeds sown by agitators.

Yet there is not a bank or financial house in the country which would not fail as this man fails, if charged for the credit

[1] Cleveland's *Funds and Their Uses*, p. 91.

it uses at the same rate as he is charged, or half the rate, or *any* rate, beyond the small charge which it makes upon itself for actual deposits in the form of deposit interest. The man, it may be said, might have offered his credit in exchange for banking credit, if he knew anything about it, and so have saved himself. But "the credit which the labouring man tries to dispose of for capital funds is seldom considered worth as much as the money for which it is offered."[1] Besides, time cannot be wasted upon small matters when large ones are knocking at the door of consideration! Hence, if you please, the reason why any decision in such a case should be removed from the province of the busy bank manager, so that he may proceed uninterruptedly in drawing his drafts upon national credit and booking them over as banking credit, to be drawn upon as deposits by the magnates of the day to the tune of millions!

Enormous drafts upon national credit are drawn by financial interests in the floating of international loans. Unless the loans are made in goods, and if they are composed of funds withdrawn, or made scarce, in business at home, they are no gain to the country. It is a German writer who says:—

"What the far-seeing philosopher Berkeley said a century and a half ago in speaking of England, that the discovery of public credit was the discovery of a new gold mine, and what James Stewart, and more particularly Sinclair, had to say of its efficiency as an instrument of political power, all this has been realized in actual fact during the course of a hundred years after their time."[2]

But like the aniline dye process, it has been realized in actual fact rather by others than by ourselves both as an inexhaustible gold mine and *an instrument of political power*. What wonder that those who knew and understood its value should strive to capture all that its producers stand upon, thereby capturing it;

[1] Cleveland's *Funds and Their Uses*, p. 110.
[2] Cohn's *Science of Finance*, translated by Veblen.

that they should build the mightiest war machine in history directed to this one purpose, working while we slept, prompted by that instinct of appropriation which arises in earliest human kind and dumb animals alike, simultaneously with the feeling of hunger and the need of food or lust of power? Until the last of all existing nations shall have abandoned this spirit of appropriation, as yet abandoned by none, defence, on the same great scale as that which we have to protect, is the bounden duty of our people so that never again will a nation attempt to "destroy England . . . not in the field, but in the counting house and in the factory, annihilating the basis upon which in the long run armies must depend for maintenance,"[1] or reason to herself that "the moment war breaks out she need pay nothing. If she is defeated, she will merely be compelled to pay what she was already obliged to pay. If victorious, she need never pay interest or principal. Would that not be a stake many times worth playing for, compared to a war indemnity of any size whatever, and, when such a manœuvre might also not improbably compass the control of the world's commerce, what . . . would doubt that the chances of war are better than those of peace."[2]

The change in our credit system necessary to render the burden of such protection both easy and Imperial is not the less our bounden duty.

It has been cited as a truism that capital invested abroad is good for the lending nation seeing that it is sent in the shape of commodities and services which make trade, wages and profits. This should always be true, but may nevertheless never be true. Every instance should be decided on its merits.

The operations of our own Government in British credit are a matter of course. In both its receipts and payments credit is the medium which, except in its small change transactions, it now necessarily adopts. Its taxes are "transfers of credit from the accounts of the taxpayers to the account of the State.

[1] Usher's *Pan-Germanism*, p. 88. [2] *Ibid.*, p. 96.

. . . The collector is legally entitled to demand cash; in practice small sums only are so paid. Having paid what he has collected into his local bank, the collector remits it daily to the account of his head office at the Bank of England in Threadneedle Street."[1] In this prosaic statement there is no indication whatever of the intrinsic nature and value of credit, in the proper production and distribution of the wealth of the nation.

If everybody always required his cheques turned into cash, not only banking but the bulk of the business of the country would collapse, because of the insufficiency of the cash to cope with the number and magnitude of the transactions. It is this necessary evil which makes the financier's opportunity. He provides the medium for making the exchanges in credit instead of cash. But as there must be value behind the credit (and this he does not possess) he cannot really provide credit of his own. This must be the credit of the people who make it good, of the employers and employed of the nation who sooner or later produce the value behind both principal and interest The nation is, as it were, the water, and he is the reservoir, the meter, the pipe, the tap, the gearing through which it is collected and distributed. But the water cannot flow except by his regulation. He is its master. He it is who can make his own charges and conditions. Here the Government, which ought to govern the water, does not really govern it. The Government merely acts as the tax collector for the financier, so that in course of time, little by little, he will come to own the water or the nation itself. The Standard Oil Company became an all-powerful business concern by acquiring the ownership of the oil tanks, pipe-lines and the other means of distribution, not by owning the oil. That came afterwards when it was of no more value to the owners than the distributors cared to make it. Our financial community are our distributors and the national credit our oil. Our distributors acquire our

[1] Hilton Young's *National Finance*, p. 102.

national credit for nothing beyond the mere writing out of the amount and they distribute it at the best price our needs will pay.

I say this in no spirit of captious criticism, for they have built up a wonderful organization.

If, by a legitimate extension of the use of credit the nation came into control of its own, such a loan as our largest War Loan would have been several times over-subscribed, even if the interest were as low as 3 per cent., and the number of subscribers would be far more numerous. The whole weight of the cost of our appalling debt will continue to fall upon the many in the interest of the comparatively few, weighing down the many by taxes and restrictions of credit, unless the principle of the operation of national credit by the whole of those upon whom it really rests is admitted into our credit system. Times dangerous to the Constitution will surely come unless that national need has been forced upon the powers that be, by the experiences of the war and the financial evils which it has moulded into such bold relief.

The sectional Government operations in the field of finance in the form of municipal loans made through one or more of the big financial institutions whose stability depends upon neither gold nor other reserve but upon the national credit, bring grist to the same mill. Exchangeable banking credit is provided in return for promises to pay principal and interest received from the municipal authorities who obtain the money or the wherewithal from the busy bees whose lives they have jurisdiction over. If these human honeymakers had the right to use the section, or a part of the section, of national credit which they really stand for, they could take up the loan amongst themselves and receive back in interest much of that which they pay in rates. But the financial system, in the control of a few, ordains that the honey of the many shall be gathered, as rates, and handed over to the few as interest and redemption charges. Only with the handing over of actual gold in every

case, which is absolutely impossible, because not a tithe of the required amount of gold exists, could the lenders claim that they had parted with value of their own, deprived themselves of the use of it, and thereby justified their receipt of the interest. They continue on their wealth-producing way, with the municipal paper convertible in their hands into the same kind of banking credit which they have lent, and backed by the same national credit, until the vast majority of the subjects of the entire kingdom are working for them in order to pay interest on the use of their own birthright. So truly has Esau sold his birthright for a mess of pottage, which he uses, in part, not even to feed himself, but to feed the man who buys the birthright!

On the strength of the national credit backed by the Navy, the Army and the will of the people, big financial institutions exchange the whole of their funds, collected even in twopences from the masses of the people, into interest-bearing securities, which are charges upon industries from which the twopences are drawn in wages and which therefore tend to depress the rate of wages which such industries can afford to pay. In such way does the implicit appropriation of national credit tend to injure the genera' welfare, notwithstanding the benefits conferred upon individuals by the principle of insurance. The depreciation on insurance investments, duly written down, comes out of the premium receipts, or, as the case may be, out of the twopences of the poor, to which extent the benefits of the insured are further reduced. With a legitimate extension of the use of the national credit many of such investments would be repaid and the insurance companies, friendly societies building societies and other institutions would find other uses on our empty continents as well as at home for the enormous credit funds which they would then have at their disposal for the further development of world resources.

The amount of the national credit appropriated by the financial community and utilized consciously or unconsciously

—the latter, it is to be hoped—to the detriment of the many, who in great numbers of instances, as property owners, are more entitled to the use of it, can be measured by nearly all the assets of the great and the small financial institutions of the entire country. All assets are national credit. With the collapse of the assets, national credit would collapse. With the collapse of national credit the assets would collapse. All support would fall from under both. Yet this support bears other burdens. "London supplies credit to the rest of the world for financing the movement of its produce from one foreign country to another."[1]

Behind the London credit stands the national credit, and it is this which is so used almost without limit for the benefit of all the outside world and our financial community, largely at the expense of those who have staked their all, in fixed assets, in our own country. Their simple faith has produced for them "the one result that is most terrifying to bankers, that is to say, locked up their assets and made them unrealizable."[2]

How far these assets are locked up now is too terrifying to dwell upon. The production and distribution of real wealth, i.e. truly exchangeable wealth in commodity form, is now the only way in which to save both our financial institutions and those who have staked their all, in fixed assets, in the country.

[1] Hartley Withers's *War and Lombard Street*, p. 55.
[2] *Ibid.*, p. 16.

CHAPTER VI

WAKE UP, ENGLAND! THE PEOPLE ARE THE REAL BASIS OF CREDIT

W. S. JEVONS's advocacy of the cheque bank does not place him high in the list of financial writers on the subject of the basis of credit, although one may assume that under good management and backed by the Government that institution would still live, whilst any bank not backed by the Government in an emergency would, even with good management, have to give up the ghost.

Walter Bagehot in his nearest approachment to this subject deals with bank reserves against sudden demands for repayments of deposits rather than as bases of credit. He says that "the amount of the liabilities of a bank is a principal element in determining the proper amount of its reserve is plainly true; but that it is the only element by which that amount is determined is plainly false. The intrinsic nature of these liabilities must be considered, as well as their numerical quantity. For example, no one would say that the same amount of reserve ought to be kept against acceptances which cannot be paid except at a certain date, and against deposits at call, which may be demanded at any moment. If a bank groups these liabilities together in the balance sheet, you cannot tell the amount of reserve it ought to keep. The necessary information is not given you."[1]

But with all the advice of Walter Bagehot and the increased reserves maintained by the banks, none of them could fulfil their obligations if called upon to do so to-day.

In the days of John Stuart Mill credit as Bank Reserves as now established did not loom very large on the horizon of

[1] Walter Bagehot's *Lombard Street*, pp. 303–4.

trade and commerce, and what it was or whence it came was not well understood.

Mill writes[1]: "The functions of credit have been a subject of as much misunderstanding and as much confusion of ideas as any single topic in Political Economy. This is not owing to any peculiar difficulty in the theory of the subject but to the complex nature of some of the mercantile phenomena arising from the forms in which credit clothes itself; by which attention is diverted from the properties of credit in general to the peculiarities of particular forms of it. As a specimen of the confused notions entertained respecting the nature of credit, we may advert to the exaggerated language so often used respecting its national importance. Credit has a great but not, as many people seem to suppose, a magical power; it cannot make something out of nothing. How often is an extension of credit talked of as equivalent to a creation of capital, or as if credit actually were capital. It seems strange that there should be any need to point out that credit being only permission to use the capital of another person, the means of production cannot be increased by it, but only transferred."

The true value of credit is that it enables wealth to be converted into capital, i.e. into means to produce more wealth and to produce the wealth out of which the Credit can be redeemed.

But with the removal of Mill's ambiguity in the use of the word capital instead of wealth, surely that is enough. If Mill had seen, as we have seen in these fateful times, the "permission" by the Government to use the capital, floating and fixed, of "another person," composed of the nation itself, to support the credit-users, who controlled indirectly the means of production, and directly the means of exchange, he would have seen in this credit, which is "only a permission," not only a power "great" but indeed "magical," in that it banished insolvency and substituted therefor nearly inexhaustible re-

[1] *Political Economy*, ch. xi.

sources; he would have seen in this not alone something of truly "national importance," but also a creator of capital, or, better still, exchangeability, in any sense that matters.

He derides quite properly projectors who would cure all the economic evils of society "by means of unlimited issue of inconvertible paper," which we have done, if we merge paper with paper and regard conversion of paper securities into paper, as truly inconvertible into anything but paper. But what philosopher's stone could accomplish that which pledging the national credit accomplished in the time and space—a discussion at a table—in which credit accomplished it at the outbreak of the war!

Credit, as promises to pay, can be useful; but what we have to guard ourselves against is its promise to transfer against our will our homes and businesses. Unfortunately to-day credit instruments have been drawn against every home and business, and the Government of the day has accepted them on behalf of the people. It has been done by taking for granted the ignorance of the people on these matters, or through the ignorance of Governments below the standard of requisite economic knowledge.

John Stuart Mill, could he, from the great beyond, carry his views to their present logical conclusion at the present day, would embrace the doctrine that modern credit is based on the assets, fixed and liquid, of the nation, worked by the nation as individuals, and protected by our fleets and our armies; that that credit should represent in this sense not merely a transfer of capital, but capital itself; that in the revival of credit, when our Government guaranteed it, would be seen the revival of capital itself, or of what is called capital with its power of effecting exchanges, and he would support the opinion, not of Norman Angell, but of Frederic Harrison, that "capital would disappear with the destruction of credit."[1]

[1] Quoted by Norman Angell on page 24 of *The Great Illusion*, from a letter to *The Times*.

Why is it that even the fear, not even the fact of "the occupation by a foreign invader of our arsenals, docks, cities and capital would be to the Empire what the bursting of the boilers would be to a Dreadnought"?[1]—for no other reason than that the expropriation of our property quite apart from its destruction would destroy our credit and banish our capital. The expropriation of our property and business through lack of credit and, therefore default in payments, will soon reduce us to this pass in every home. Expropriation by an enemy would destroy the power of our Government to give to British credit its national guarantee, and hence even if the property were left intact no British credit could be based upon it. And as British credit fell with the loss of property, so would the conqueror's credit rise with its gain. If the conqueror were German, then German military and naval power would silence objectors. It would not only own and govern the realities amongst our assets—but it would possess the means to hold them. Germans would own the property, whilst the British would perform for such pay as the new owners would give whatever services they required. With this view of credit, which, subject to benefits to its financiers, the Germans could actually take, it is a great illusion to believe that individual Germans would be no richer for dispossessing the British of their property and becoming its owners. Germany became no richer for dispossessing its own people of their dues and means to live. A conquering nation in extending the real basis of credit would acquire an increase of riches, equivalent to the exchangeable value of its new means of development.

Governments, having lost no property apart from war munitions, lose no credit; and if they have gained much property they have gained much credit; the transfer of the ownership of property with control of workers would transfer the credit.

[1] Quoted by Norman Angell on page 24 of *The Great Illusion*, from a letter to *The Times*.

Sound credit on the grand scale is vital to trade operations of great magnitude. But unless there is commensurate production of wealth behind the credit, the credit is not sound.

Credit is based not only upon property, but also upon the power to operate it and to defend it, as well as to attack those who refuse to recognize this fundamental principle. While human nature is frail, war threatens all who possess such desirable property as can be appropriated and made the basis of an extension of the credit of one nation at the expense of that of another. So easy is such appropriation in a conquered country, that it may mean no more than the alteration of names in mortgages and other documents.

Norman Angell could not have arrived at such wrong conclusions but for his entire disregard of the real basis of credit. He says: "In our day the exaction of tribute from a conquered people has become an economic impossibility."[1]

This is nonsense if the people have really been conquered. Great Britain exacts no tribute as tribute from her colonies or other places which come within the category of conquered. But in another sense she exacts what is equivalent to tribute. And credit is the means by which it is done. The exaction is, of course, not peculiar to the colonies, for it is made not only there but at home, and it is made not by the Government in either case so much as by that section of the community which is privileged not in law but in fact to utilize at their own sweet will the necessary drafts upon British credit. A colonial loan taken up by British credit-controllers in London, at a discount and substantial commission, brings paper securities which in a roundabout way are sold for banking credit, wherewith supplies are, or should be, sent to the colony raising the loan. Thereafter annual repayments of principal and interest are made by the colony, in the form of materials and services over a specified term. The suppliers of the goods from this country get a small profit in banking credit. To the extent of that

[1] *The Great Illusion*, p. 28.

profit the colonial receipts are reduced, and the colony repays to the loan-holders the loan at par in terms of money plus the interest, without any deduction of the profits of the colonial exporters and the British importers of the repayment goods. If the manner in which we lend British credit to the colonies is not an insidious form of very substantial exaction, facts have given place to chimeras. Not even the import duties imposed in the colony are paid by the fortunate operators in British credit, but merely tend to produce a process of profit-sharing between the Colonial Government and the British exporter, who is thereby driven to make a harder bargain with his workers at home, and to give some basis to a vague notion among some of these, that colonies are merely a burden. The heavier the interest charged to the colony and the shorter the term of repayment, the more oppressive is the exaction from colonial workers, and the slower is rendered the development of the colony by the surrender of the best years of colonials to the liquidation of the debt. Every such use of British credit, except upon terms which ensure repayment over as long a period as circumstances permit, and without interest, is a real and heavy tribute whether imposed at home or in the colonies. But were British credit rightly used in the interest of Britons and meted out by the Government on a business-property basis to Britons either at home or abroad, the burden of repayment alone, i.e. without interest, would fall lightly upon all shoulders, and the cost of that defence of British credit on the scale of armaments necessary to warn off all future attack would be gratefully and enthusiastically borne with ease by the broad shoulders of the whole Empire. Why *property* is qualified by the word *business* as the basis of the credit will be explained later.[1]

Norman Angell states also that "The exaction of a large indemnity" has become "so costly directly and indirectly as to be an extremely disadvantageous financial operation."[2]

[1] See Chapters VIII and IX.

[2] *The Great Illusion*, p. 28.

Well, unless the real business property basis of national credit is acknowledged and the nation recognized as its real owners, the dictation of an indemnity may cause many sections of the people who exact the indemnity to suffer seriously. That all would suffer is untrue, that the financial community would suffer is absurd. The basis of British credit, the business property here, will not have been reduced, and the financial community will still have the monopoly of its use. Whatever business property or charges upon business property may be acquired by Britain, will be a further basis of British credit of which the financial community will have the further monopoly. If certain imports on a large scale are taken in part payment, the traders and their dependents here will suffer seriously by their skill and calling having become practically superfluous. But if the payment is exacted in the form of certain other imports at bedrock value, raw materials to which the utility-value has to be added by process after process at home, i.e. if the imports are merely the sticks gathered for lighting the fires of prosperity at home, creating competition for labour, consequent high wages, and yet leaving production costs low enough to meet competitive prices, the exaction of an indemnity might produce prosperity for all for generations to come.

But to correspond with the great supplies there must be a corresponding demand. That demand, to arise at all and to be of benefit to the employers and the employed, can only be created *by and in* conditions of credit which have set free the shackles of so-called unrealizable assets. It is not wholly true that they are unrealizable because to all intents and purposes they are realizable, not, it is admitted, by their real owners, value-givers and operators, but, at bargain prices, by those who have charges upon them in negotiable banking credit which in any emergency the Government must make good.

There is no other way of creating these conditions than by making the first charges of national credit on business

properties free to their operating owners under conditions of meeting this credit by easy instalments year by year.

The War Debt and Reparations question cannot be settled at all if the people to be mulcted are not really conquered; though this question would speedily dispose of itself if even one country, Great Britain alone, would promote means to pay in the production of new wealth in trade strictly standardized for exchangeable values by gold.

Norman Angell states: "The wealth, prosperity and well-being of a nation depend in no way upon its political power; otherwise we should find the commercial prosperity and social well-being of the smaller nations, which exercise no political power, manifestly below that of the great nations which control Europe, whereas this is not the case. The populations of States like Switzerland, Holland, Belgium, Denmark, Sweden, are in every way as prosperous as the citizens of States like Germany, Russia, Austria, and France. The wealth *per capita* of the small nations is in many cases in excess of that of the great nations. Not only the question of the security of small States, which, it might be urged, is due to treaties of neutrality, is here involved, but the question of whether political power can be turned in a positive sense to economic advantage."[1]

But it is futile in these days of modern credit to judge whether political power can be turned in a positive sense to economic advantage when the converse is the case and economic power is beyond question turned in a positive sense into political advantage. Under the international credit system in vogue to-day, whenever an emergency arises, economic power in the hands of those who have pledged the national credit directs the politics of a country absolutely. This is so even with unsound credit until its collapse inevitably comes by reason of this unsoundness. Political power which when independent may be helpful, is plastic in the hands of those with

[1] *The Great Illusion*, p. 28.

economic power when a Government in a crisis, failing to recognize the proper basis of that economic power, bows down before it. Governments feel that they must interfere solely to protect the economic power. Small States are comparatively free from the direct exercise of economic power, or, in other words, credit monopoly, because they are too small for bases of credit on an extensive scale. The vast proportion of the world's trade financed by British credit could not, for instance, be financed on the credit of a small State like Belgium. No more cogent proof that credit is based upon property and the power to defend it could be offered.

However, the world's financial community on the existing credit system practically ignores such a State; it consequently exacts little or no tribute therefrom, and may therefore leave the poorer classes less poor, and the richer classes less rich, than where its exactions are felt in larger countries. Here its large-scale credit operations, based upon the property of the larger and wealthier community, whose operators must pay the tribute before accumulations of their own can begin, before they can save, the poor become more numerous, the property-owners become impecunious and the few become prodigiously rich.

Political power is largely the instrument through which the operators in the national credit must work, and do work, to the best of their ability, and the protection of their interests, to prevent the appropriation of the property of the country to which the credit in which they operate is allied. As John A. Hobson rightly says: "The early beginnings of this cross-ownership among different nations are, indeed, often sources of national quarrels and even of wars, when the owners of foreign investments which are in peril of repudiation, or are otherwise injured by 'bad government,' are possessed of sufficient political influence in their own nation to utilize the public purse and the public force, in order to safeguard or improve their stakes in foreign parts."[1]

[1] *The Evolution of Modern Capitalism*, ch. x.

But seeing that such action, though prompted by individual interests, tends to preserve the integrity of national credit, it performs a valuable public service. National credit is of such utility to the nation, that it is worthy of protection even by those who have not hitherto clamoured for participation in the "ground floor" benefits of it.

Were the operators in this credit as numerous as they ought to be there would be no lack of recruits or enthusiasm or preparedness, for more would understand the real need beyond the feeling of patriotism for fighting and winning, fighting for the use of their own credit, not for its use for the special benefit of an unduly small section. Even in a small State like Belgium, that application of its credit which gave the Belgian an advantage over the foreigner in investing in the country would have had as a consequence the power and the will of the people to render its comparatively small frontiers impregnable. It would have discouraged investments in private property in a small State by inhabitants of a large one, who might have their own peculiar political influence upon the State. The Belgian would not have desired or had need to sell or pledge to a foreigner a property upon which was based a valuable citizenship not transferable to a foreigner except under conditions which would have largely frustrated ulterior motives.

"The wealth, prosperity and well-being of a nation depend in no way upon its political power"[1]—well, look at Belgium now! Yet no such debacle as happened to it in 1914 would have come to it if the political power to regulate first charges upon its property in the interests of its own people had been in operation.

Again it is stated: "No other nation could gain any advantage by the conquest of the British colonies, and Great Britain could not suffer material damage by their loss, however much such loss would be regretted on sentimental grounds, and as render-

[1] *The Great Illusion*, p. 28.

ing less easy a certain useful social co-operation between kindred peoples."[1]

Such a view is due to misapprehension of that immense volume of British credit which is ever afloat in financing the trade of the world. To cut away the colonies would be to cut away part of its base where work necessary to create and redeem credit can be done. The fact that the credit so based is used not by the bulk of Canadian, Australian, South African and other business-property operators, but is hired out to them when they are entitled to some of it free, does not alter the fact but merely the incidence of the fact. The loss, therefore, would be as real as the loss of a watch which one is able, as convenience dictates, to take to a pawnbroker and pledge in exchange for legal tender.

Again, in reference to Great Britain and her colonies: "They are, in fact, independent nations in alliance with the Mother Country, to whom they are no source of tribute or economic profit (except as foreign nations are a source of profit), their economic relations being settled, not by the Mother Country, but by the colonies."[2]

It is to be hoped that the economic relations between the colonies and the Mother Country will not leave it possible to write of settlement of them in the future except by both. With the benefits of British credit allocated amongst all, this would be done, and the real benefits of a World Empire rapidly attained by the Imperial Many. But to disprove that our present economic relations with the colonials are no source of tribute or economic profit except as foreign nations are a source of profit, one has only to consider what Germany thought and no doubt still thinks of such relations and incidentally of property. Here it is:—

"The fact that they (England and France) have invested in every quarter of the globe, intending thereby to protect themselves from too considerable loss in case war should break out

[1] *The Great Illusion*, p. 29. [2] *Ibid.*

or countries become bankrupt, has actually forced them to part with the reality of their wealth and to substitute for it unreality. They have placed the tangible results of their investment the width of the globe distant from their shores, and therefore from their armies, and they have taken in exchange a promise to pay, which they do not possess the force to exact, and whose whole value depends upon the willingness of the debtors to consider it binding and to liquidate the debt of their own free will when it becomes due. They have invested their money everywhere except at home, and have therefore exposed themselves to its loss, because their ownership of these debts and instruments depends on the continuance of the present notions of commercial morality. This is not investment. This is speculation. The reality—the railways, factories, mines—which represents the capital they have invested, belongs literally to the borrower. He has the only tangible thing in existence in the world, the only thing which possibly can exist in the world, as the equivalent of that value. Whatever is written on paper is paper, and is not to be made into factories or railways, or tangible assets of any kind, by any process of jugglery such as the mediæval bishop performed when he baptized the roast and called it carp. Things *are* and writing on paper does not change the thing or its position. The real wealth of England, the surplus of which she is so proud, comes not from her soil nor from her own factories—in other words, from those things which no one can take away from her except by force of arms, and which she necessarily protects as long as she continues her national existence[1]—but from her income from the accumulations of the past with whose actuality she has

[1] The floating credit utilized to-day in excess of that based on first consignment of goods is based upon property existing to-day and not upon accumulations of the past or the income therefrom. That part of its basis has passed away into oblivion in destruction of materials in production, the deterioration of industrial plants, the exhaustion of soils, and the destruction of forests. Productive equipment in every community is wearing out and must be replaced. And it is worthy of

parted, and from which she has received for decades the payments represented by the excess of her imports over her exports. The world has paid her tribute, but the world need continue to pay that tribute only so long as it wishes. The moment the borrowers refuse longer to recognize the validity of her claims upon their revenues and incomes, and begin to realize that they hold, with a clutch which she cannot loosen, the actual substance of wealth, then they will begin to see that her wealth is not real, but depends purely upon their willingness to continue to pay her revenue, which they may stop paying her at any moment without suffering any consequences. To be sure, such notions as these presume the violation of every notion of commercial morality and expediency at present existing in the world, but, as the Germans say, *if they were violated*, what could England and France possibly do to avert destruction? It is true, they admit, that such a wholesale repudiation of debts would undoubtedly make it difficult for nations to borrow from each other for some time to come, but, they retort, if such a repudiation took place, the debtor nations would not need to borrow money for generations to come."[1]

That the Germans appreciate real property is shown here. Had the author examined the question in the light of their views upon credit he would probably have found, as is indicated elsewhere, that they appreciate it as a basis of credit which gives them the property and "the other fellow" the paper, which as an effect of force of arms they would deal with in a more subtle way than by mere repudiation. They would advise our colonies to tear up contracts as they tore up the Belgian treaty. But "Codlin's the friend, not Short" requires more simple-minded people than colonials to influence, and it

note here that maintenance and replacement are not a charge upon the utilizers of the credit based upon such property but upon the operators of the property, and is a further tax, in addition to interest, upon the life and work of the exchangeable-value producers.

[1] *Pan-Germanism*, ch. vii, pp. 90–2.

does credit to their honour and loyalty that after such propaganda they are found facing the Germans behind our guns when the need arises. (Written in 1915.)

In saying that "our colonies are no source of tribute or economic profit (except as foreign nations are a source of profit)," Norman Angell was clearly wrong.

But as we know that much of the indebtedness upon which the colonies pay interest and redemption charges is not due to accumulations, but to the use of such accumulations of which their own possessions form a part, as a basis of credit, has the time not arrived when the citizens both at home and in the colonies should be given some of the financial privileges which, with such Germanic poison dropped incessantly into their ears, they might eventually be induced to take or appropriate? A common bond of British credit from the use of which all would be deriving tangible benefits at small cost, and which it would be everybody's personal interest to protect, would add much vigour to the circulation of Imperialism and the promotion of its overwhelming defence.

The specious argument that it was an optical illusion to regard the annexation of Alsace-Lorraine by Germany as beneficial to that country is rendered fallacious by the extension of German credit which the national possession of this territory effected. This extended credit accrued to Germany whether the property remained in the hands of the French or was expropriated in the interests of individual Germans. It is nonsense to argue that neither the German nation nor individual Germans were any the richer for the conquest of these provinces. The German financial community became much the richer in the credit they could trade in at a profit, and individual Germans benefited by the greater volume of credit on offer to them for the extension of their business operations. The question of loss or gain on balance of revenue and expenditure in the government of the area is a comparatively small matter. The French did not place wreaths on the memorial

of the lost provinces in the Place de la Concorde in Paris for forty years in order to perpetuate the memory of a merely sentimental bereavement. That bereavement was both sentimental and economic. What would become of French credit if the whole of France were similarly appropriated? And if the German flag were floating over the British Empire, what would become of British credit? It would be appropriated as German credit, operated by German financiers who would make the exactions for its use now made by those financiers of various origins whom our Government in practice if not in theory, and in fact if not in intention, constitute its monopolists.

As gold is the true basis of sound legal tender, not of banking credit, and plays in banking merely the part of legal tender, and the standard of value; and as the basis of legitimate banking credit consists of securities related to valuable products readily realizable in a general crisis, held either as collateral security for loans or as investments, so public property of a productive character is the basis of national credit. Where a gold reserve is used as the basis of banking credit or legal tender, any excess of either is in fact, whatever it may be in nomenclature, an appropriation of national credit which has its legitimate basis in the productive property of the nation. Any securities, therefore, relied upon for solvency by the banks which are not realizable quickly under any conditions whatever, constitute a measure of appropriation of the use of national credit; and the like applies to credit given or lent without security beyond a promise to pay, as well as to the credit based upon gold, and cash generally, beyond their nominal value.

In a crisis, the amount of gold and the realizable value in legal tender (compared with the mass of almost unrealizable securities) on which credit is popularly believed to be based bears so small a ratio to the thousands of millions of pounds of nominal value in outstanding credit that it is ludicrous to

regard gold and securities as its base, and not recognize that employment-giving property and other property convertible into such, i.e. the major portion of the property of the nation, kept workable, is and must be its real basis. Only by those means would it be possible for such a mass of credit to be met with real value; and the very essence of sound credit is that it can ultimately be so met and extinguished.

In the redemption of national credit the Government would be compelled to appropriate property, dislodge the owner, and install in his stead some person to whom its equivalent in national credit had become due. All the gold in the world, even if it were in the possession of the Government, would go but a short step of the way in such a national emergency. Only whilst the Government had the power to say "accept this promise to pay," could this form of liquidation be avoided. If it had ceased to have such power, the country would have passed into the hands of a conqueror who would please himself as to whether he would have the credit met for his own benefit or for that of the powerful financial interests who had used it. But whether for one or the other, he would certainly meet it according to circumstances by appropriation of the property itself or claims upon specific properties with soldiers as the men in possession at the charge of the conquered owners.

Although a valuation department of Form IV fame is in existence, no estimates of the value of British property as a basis of credit have ever been made. Estimates of property value in a general way have been made in the United States, giving the value of property there as £17,700,000,000 (or seventeen thousand seven hundred million pounds) in the year 1900, and four years later, in 1904, at £21,400,000,000 (or twenty-one thousand four hundred million pounds), showing an average increase of about £1,000,000,000 (one thousand million pounds) per annum.[1]

[1] *Wealth, Debt and Taxation*, published by the United States Census Bureau.

Estimated at somewhat lower prices, the value of property in a general way in the United Kingdom near that time was supposed to be about £16,000,000,000 (sixteen thousand million pounds). Events must have turned a comparison of present totals considerably in favour of the United States. Hence the United States is beyond question the richest country in the world and the basis of its credit, credit which its new banking system will enable it to use on a world-wide scale, is greater than that of any other single country. Simultaneously with the world-wide use of its credit, America is bound to build an enormous navy, in order to give to it and to the commerce it will promote the necessary protection. The expected increase of commerce will surely follow, because with the greater credit facilities given it will become easier for our own colonies to trade with America, whatever the scale of prices, than with the United Kingdom.

But America has almost lost its chance. Its gold and its vast credit resources have been used to create little but paper in financial operations to produce interest rather than to produce and distribute new wealth to make the individuals of the nation prosperous. Interest and Investments hang by a thread when profits are placed in jeopardy.

There is a tide in the affairs of men, and of Empires, which taken at the flood leads on to fortune. Beyond question, the rapid development of the British Empire with its fourteen millions of square miles in area, and its four hundred and forty millions of people, would give a basis to British credit which, duly protected at a small cost *per capita*, would give it currency over the whole world wherever means of authenticating it were placed. The war has taught many, as a few previously understood, what credit is, i.e. the real medium of exchange. The extension of it would multiply correspondingly the volume and rapidity and variety of the transactions which spell development. At home there are countless opportunities for develop-

ment. Throughout the British Dominions such opportunities are almost without limit. We alone, of all the nations, have the foothold for such development, beyond that of even a combination of Great Powers. A turn of the crank, in the form of a little Bill through Parliament, would set the motor going. Will our Government rise to the occasion, and with the necessary encouragement of regulated enterprise obtain that indisputable world-power in the interest of our safety and the independence, which one great nation has so far failed to obtain with blood and iron and "frightfulness," and which another nation did not obtain by means of dollar bills? Or shall we lie rocked in the cradle of the deep, asleep, or in the midst of danger bury our head like the ostrich in the sand and refuse to believe what, having blinded ourselves, we cannot see? No greater significance than this can be given to King George's exhortation, "Wake up, England!" and its implication, "When awake, do not use unseeing eyes—The eyes are the windows of the brain."

That financial credit must have a solid foundation is certain. This foundation, whether in relation to land, sea or air, lies (1) in the prosperity of the people in general, (2) in financial freedom of free exchangeability of commodities in home trade and foreign commerce both of which constitute the nature and essence of that prosperity, and (3) in the gold standard of value and gold measure of prices being fully applied, without which the necessary exchangeability of commodities is not possible. That is a truth which all the economists, statesmen and experts have ignored (when they have not derided it) throughout the greatest crisis in our history.

Legal tender money must, without subterfuge, be fully based on the rock of gold. Credit must, without trickery, be based on the rock of commodities. Commodities must be kept by freedom from extraneous charges against them, equivalents of gold, as nearly as legitimate supply and demand will allow.

That is the economic truth that is essential to economic life. Under a Constitution which permits artificial and arbitrary values to be given to bits of printed paper, at the expense and ultimate ruin of the people, the mightiest Empire must fall.

CHAPTER VII

RESTORE THE PEOPLE'S CONFIDENCE BY RESTORING THE TRUE GOLD STANDARD OF VALUE

MONEY and credit are the foundations of two economic systems.

Money and credit may both be financial credit, written on paper and recorded in books of account.

When financial credit almost alone underlies the economic system of a country, the whole structure must eventually come to the ground in the manner indicated towards the close of Chapter VI. Default on a gigantic scale takes place, and the house of cards collapses.

That is the end of the paper foundation, the end brought about by that paper which is inconvertible in due time into anything but some other paper. Intrinsically worthless paper is a destructive foundation which destroys not only itself but everything in an economic system that rests upon it.

This happens because, having by its charges consumed all the wealth produced, without having produced any wealth itself on conditions of exchangeability, it collapses from sheer lack of support.

How can that be? Well, if money is based on the banking principle of currency, the abuse of which enables both fictitious money and inflations of credit to expand, until they can expand no more; until banking credit has been converted into non-productive securities, until it can be converted no more, because it has become frozen in countless loans on paralysed business; until production of exchangeable wealth ceases, and neither money nor credit can be used for making purchases; until commodities, or goods, for sale, cannot be sold; until a shortage of cash for business becomes unbridgeable; until business yields no profit; until securities obtain no income;

until all values collapse; and then, finally, if money and credit are still based on an abuse of the banking principle of currency, causing all these economic evils, general ruin can no longer be averted. Nothing is left to support anything. The climax arrives which proves that humorously nothing can come from nothing.

Some economists deny that an unbridgable gap in the economic system can occur, seeing that it is so easy to print money and create more credit in any emergency.

They forget that if money is not real, and credit is not systematically redeemed, such gaps must occur. Nothing for nothing is a good maxim in sound economics—in unsound economics the principle supposed to be sound is "Everything for Nothing," which, humorously speaking, is absurd. We expect to buy everything for pieces of intrinsically worthless paper. Why is that only temporarily possible? Clearly because the essence of credit is that it shall be redeemed, each quota of it has a limited life, even when it is backed by the strength of a nation. Credit must be redeemed when it is invoked to carry out a transaction, whether the date for redemption, or the promise to pay, has been reached or not, or whether it has been met by an equivalent in other credit or by a commodity. The gap occurs in the failure to extinguish relative credit when commodities are consumed. When A buys commodity B and consumes it, the credit with which A pays the retailer C should cease to exist. It should not be used by C to replenish his stock of B. Doing this, is to pay for B in order that A may consume B and then to pay for another portion of B for C to sell again. The one item of credit which pays for B consumed, and B replaced, has been transferred to C, but A has given only a promise for B, and C has given only a promise for the replacement of B under a paper legal tender system. The credit does not really pay for B consumed which it could do only by being put out of existence. It runs on and enables still another quantity of B to be consumed, and thereby double the

quantity of credit that should now be redeemed. But A cannot be assumed to overlap both B consumed and B replaced.

It finally causes a whole nation to live on credit never redeemed but always paid for in interest. This principle is deemed destructive. If the item of money were a real commodity the case would be different:—commodity credit would pay for commodity B; the exchange would thus be a sound one of commodity for commodity. Then the commodity credit, having passed to the retailer, would replace commodity B in the retailer's stock. But when, by the sleight of hand which deceives the quickness of the eye, neither the consumed B, nor the replaced B is paid for at all, the paper credit which should cease to exist with the consumption of B and the absent commodity which should pay for the replacement of B, create a growing gap to the amount of half the two commodity exchanges; although strict business operations are supposed to have taken place. If the means of payment were, ultimately and truly, gold legal tender, no gap in the trading function would be created. A would give a real commodity—gold—for B; A would receive a real commodity B for consumption, paid for with the commodity gold; the retailer would receive the real commodity gold, or its true equivalent, the commodity for B which he had parted with, and he would pay his wholesaler with the commodity gold in replacing his stock of commodity B. For nearly twenty years this paper money and credit policy of making gaps in trading transactions, as numerous as the sands of the sea, has been the practice, until the gap is now so wide, in cash resources and trading power, that the default alluded to in Chapter IV on page 48 is assured, unless the vital remedy is applied. It has not improved matters to realize that interest has been charged upon the credit with which it has been constantly attempted to fill this gap, until every household in the country is paying interest on everything with which it struggles to maintain itself day by day; and until commodities for replacements can no longer be parted with at any

price owing to the absence of the realities necessary to trading.

Modern economists have lost their way in the essential truth that trade is fundamentally an exchange of product for product and nothing else. The monetary payments used in trade must represent commodity savings or commodity accumulations, either as the machinery for producing truly exchangeable wealth, or gold itself.

The nation must turn from the modern economists to the economist of all time, who enunciated the Parable of the Talents, as related in St. Matthew, chapter 25. It matters not whether the talents were of gold or silver. I think they were of gold. It is certain that at that time a talent was a weight of precious metal. The talents were not to be traded for mere interest except as a last resort. That is quite clear from the text relating to the single talent. In regard to all the talents it is also clear that they were to be used in trading, rather than by resort to money-changers. He that had the five talents was praised for trading them—really trading them, commodity for commodity—until he found himself as a result, through legitimate profit, with double the number of talents in his possession. The same principle is made clear on report of the man given the two talents with which to trade. Naturally to those with the more talents of gold, who know how to trade legitimately with them, more was given, on the principle that to him that hath more shall be given and from him that hath not shall be taken away even that which he hath.

As one factor, the currency principle invoked by Sir Robert Peel enables us to find all the talents of gold that we need to set our money right. As the other factor, people's credit, or what may be called national credit, if economically distributed, interest-free, for productive purposes, would promote the production of new wealth, or reduce charges on the existing production of wealth, to the extent necessary to make all our wealth truly exchangeable. These two factors are also necessary to the principles of real trade, the principles of the Parable of

the Talents, and the principles necessary to economic salvation of the State.

The currency principle leaves no doubt about the pound. When Sir Robert Peel asked his famous question, What is a pound? the answer was 123·27 grains of gold eleven-twelfths fine. There was no ambiguity about that.

If we desire to know what our pound is to-day, we must refer to various countries and cities. The answers are various. We were told on Saturday, November 26, 1932,

	s.	d.
by New York that it was	13	3
by Montreal that it was	15	7
by Paris that it was	13	3
by Brussels that it was	13	3½
by Berlin that it was	13	3
by Zurich that it was	13	3¼
by Stockholm that it was	20	4¼
by Oslo that it was	21	5
by Copenhagen that it was	21	1½
and At Home that it was	20	0

But nobody would accept 13s. 3d. for 20s. and traders could not afford to sell 20s. worth of goods for 13s. 3d., although foreigners here could buy for consumption in London many things cheaper than a Londoner could. Everything that an Englishman must buy abroad costs him correspondingly more. Is it to be wondered at that it is growing impossible for an Englishman to carry on business in his own country, or abroad, in many important lines, because what he offers for sale he is offered too little for, and what he wishes to buy he cannot afford to pay for. Restriction of exports by restriction of imports cannot help trade. Tariffs can only complicate the money problem. Huge taxation and tariffs together are worse. Standardization of the pound as a true pound would remove these difficulties by changes that the restoration to true money would involve.

When gold is the keystone of our economic system, then is the system built upon the commodity of all commodities that is best for the purpose. It cannot succumb like paper.

The structure is forced to be gold or a true equivalent of it. No other keystone is ever needed, either to maintain the value of the whole, or to regulate the value of its details. Money which the law makes legal tender must be gold under this system. If paper is used for legal tender currency this paper must be more than a promise to pay the legal coin. It must be a gold certificate against which, and every one of which, gold to the full is actually stored beyond question. It must inspire something more than a glib use of the simple word confidence. The confidence must rest upon the indubitable fact that the full quantum of gold is stored against the legal tender and that there is no more legal tender in existence than the gold that is stored against it. In this fact lies the full and complete acceptance of the commodity basis as the basis on which our economic system is built. All who tell us that there is not enough gold to support this system of strict necessity, honesty and confidence, should be removed from any positions of authority and for the good of the country silenced by deportation. They are the people who, if they know what they are talking about, want to print paper money with nothing of practical value behind it, with the idea of basing many times its amount of credit upon it and using the whole as a mere machine to extract interest upon the full amount from the general public until the general public under such eventually intolerable exactions are down and out.

When the structure of credit is built upon gold, that is on the commodity basis, no such creations of empty credit can be inflated into money. All the credit that finds its way on to the books of bankers as money of account must, in the course of its registration, come through transactions legitimately based on gold. Many thousands of millions of credit at present on those books, or which have passed through those books, have never been so registered. They were the creation of money of account to meet the exigencies of the war. No one wishes to wipe them out as nil, which would have been the treatment that they should have received, if there had been no war. No one wishes

to wipe them out because they form a network of financial ramifications on which millions of people rely. No one wishes to wipe them out in breach of the promise of the nation that they were honourable obligations which would be met. It did Germany no good to break such a promise to its own people.

What is needed is a system that will enable our promises to be kept and which will put a proper foundation into the confidence of the millions of the people who rely on the British undertaking to repay. Moreover, a system is needed that will never make it necessary to wipe out as nil funds which were treated as valid in the exigencies of the war. It must be a system which will make good the fact of no provision having been made to enable the nation to meet all these obligations. It must be the one system capable of the work that it is called upon to do. It must in short be the gold system.

The commodity basis of economics which requires gold for its standard is the only way to trading prosperity. It means exchange of commodities for commodities and exchange of services related to commodities for other services related to other commodities. It therefore means trade, employment, transport by rail, road, river and sea, ever-increasing diversity of industries, and work and profit for all. It does not mean prevention of trade to ensure riches by interest for some. It does not mean that restriction of trade which creates the poor. It means the enrichment of all for general service to all, the enrichment arising from profit measured by the services rendered instead of from interest forced from declining trade and poverty-stricken traders.

Manipulation of paper money, paper credits, money of account made valuable by artifice, loans of inflationary financial credit as sound financial credit. It forces the building of savings on solid gold or true gold equivalents; it enables profits to be built solidly on trade exchanges which benefit both sides of every deal; it prevents all the frauds and forgeries that arise from paper money in every country; it forces the special use of

the cheque on banking credit which, like all money of account, is steadily brought into line with the gold equivalents; it drives away fear of bankruptcy, provides the true basis of confidence and produces inevitable and general prosperity. In the end it proves that legitimate profits are a thousand times safer than interest as a reward of effort.

Taxation, excessive interest and uneconomic prices (that is prices too high or too low for exchangeability conditions of supply and demand) are funds which are taken from the producer and compulsorily added to his product, and which are paid in the main to non-producers. These funds are used by non-producers to pay for what they consumed. They are seldom otherwise used unless they are added to the means of exacting further interest. To the extent that they add to the price that must be quoted for a commodity they remove the commodity from that part of the price and leave the quotation related partly to a commodity and partly to interest, rates, taxes, commissions, tariffs and so forth. Customers who wish to buy only the commodity and who could and would buy it at the price were interest, rates, taxes, commissions and tariffs removed from it, naturally cannot afford to buy it without their removal. Trade consists of the exchange of commodities for commodities. Such additions as are not commodities detract from the exchangeability of the commodities. When the commodity is regarded in relation to its price, the non-commodity part of the price represents the extent to which value has been extracted from the price. Nobody can, or will, pay for a superfluity in every deal. Inevitably the trade which depends on this anticipation can never materialize. Yet that is what the abuse of the banking principle of currency expects, and, bear this in mind, the banking principle of currency cannot fail to be abused. It can never be supported for any other reason. A sound axiom of economics is, the farther the price of a commodity is driven away from the price of the commodity alone, the farther we are being driven away from

the currency principle, the gold standard of value and general prosperity. When an economic system is built upon commodities, gold is the commodity against which all others are measured. The legal tender must be gold, and in this country it was Peel's pound 123·27 grains of standard gold eleven-twelfths fine—Sir Isaac Newton originally fixed this weight and quality of our gold coin in 1717.[1]

This great scientist was governor and master of the Mint for thirty years. The keenness of his interest in this position is well told by Lord Macaulay. Sir Isaac Newton's letters, pamphlets and reports are to be found, probably in the archives of the Mint, but certainly in the reports issued by the National Monetary Commission of the United States of America. Sir Isaac Newton re-established the exchangeability of all commodities, that is, he re-established our trade, by bringing all our commodities, including silver, to parity with gold. Silver was then the legal tender. Its Mint price was below its market price. This made the price of all commodities exceed their true price. (As sovereigns now rise in the market to 28s.) Other commodities, including gold, were used to buy and export the silver coins, to be sold elsewhere and stored away, as gold is to-day taken and stored by certain countries. We sold our gold to France at 20s. in paper to the pound. We could have obtained at least 28s. for it in goods, but we preferred 20s. in paper. All that Newton did was to restore the gold to equivalence with all commodities, thereby establishing the true gold standard and curing the paralysis in trade. Those who talk of Bimetallism in the form of a double standard of gold and silver forget the fact that in that day silver stood for all commodities, and that when gold was made the true standard of value for silver it became the standard of value for all other commodities as well. Silver has its uses as token coinage in a system served by gold in which no paper money is permitted unless it is fully covered by gold.

[1] See Appendix B.

CHAPTER VIII

THE PEOPLE'S CREDIT AND HOW IT COULD BE PUT INTO OPERATION

"Render unto Cæsar the things that are Cæsar's"

British credit, being based upon British property, effort, intelligence and birthright, belongs therefore to the British people, and to them it should consequently be given for their own use; to individuals to the extent to which they can meet it, and to particular individuals through whom there is a certainty that benefit will result to those of the people who have no tangible property but only capability of service related to commodities with which to answer for their share in the ownership of it.

The duty of redeeming this credit, which is vital to sound credit, must be imposed upon those who utilize it. The mode of redemption should be by annual instalments and extend over as long a period of years as the property supporting it is reasonably capable of being maintained. This period should be fixed but be capable of extension under prescribed conditions. The operation of the credit should take the form of cheque currency or banking credit, with the Government as the support of the banks through the medium of the Bank of England. It must *ever* be so in a crisis, and should *always* be so that crises may never occur. The Treasury should have the powers and the Bank of England the privileges demanded by the new situation.

This proposal eschews many details, elucidation of which would become wearisome to the reader. But a few comments upon various parts of it may help to smooth the way to its acceptance.

The proposal is:—

(1) *That all property under British rule used for the purpose of helping to provide a living for employees who exchange their services and time for wages and salaries, in the production of wealth, shall be recognized as the real basis of national credit.*

The property is limited to productive property in the sense that by its direct instrumentality its workers produce with mental and manual labour earnings whereby the employing and the employed classes may live, maintain their dependents and provide for their future, either by savings, or by extension of business operations or by both. There is an economic reason for this limitation of the property to that which is productive to include a railway and exclude a Government office, to include a smithy and exclude a mansion. The railway and the smithy produce earnings for their maintenance. The Government office and the mansion are not maintained out of their own productiveness but out of the productiveness of other properties, such as the railway, the market-garden, the smithy, etc. The Post Office cannot be termed a Government office in the excluded sense, seeing that it is or ought to be maintained by its own earnings. It is, in other words, a productive property.

Without recognition of this distinction economic justice cannot be done to the workers of the Empire who own no productive property and who are dependent upon mental and physical skill and labour, time, the will of an employer, the whim of a financier, and varying degrees of health and strength for their "place in the sun." That these people have a well-founded claim for consideration on national and Imperial grounds none can deny. *Without them there would be neither nation nor Empire.* Their economic claim may be shown in many ways. One of them is the operation of the principle of the division of labour in modern industry which has become the basis of all organization. Adam Smith speaks of "The great increase in the quantity of work which, in consequence of the division of labour, the same number of people are capable of

performing, as due: first, to the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and, lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many."[1] None can deny it. Division of labour aided by machinery increases production and tends to reduce prices. This increases the purchasing power of money or credit, and benefits those in possession of both. But it reduces the price of labour also: first, by reducing the demand for it, fewer labourers being needed; and next, by increasing amongst labourers competition for remaining jobs. It reduces the money and credit in possession of the non-moneyed classes, thereby depriving them of the benefit of the increased purchasing power of money and credit. To restrict the use and improvement of machinery all admit would be folly and an unforgivable sin in the face of world-wide competition. But the elbowing out of the bounds of sustenance of moneyless workers cannot go on indefinitely. Out of work, out of home, and out of country is a progress to national decadence. The alternative is the extension of means of employment in order to create a great demand for the services of these people, a demand for services of all kinds, in employment of unlimited variety, and thereby to produce by competition for services such a demand as will constantly tend to exceed the supply. Unlimited use of machinery must be allowed to mean the unlimited use of human beings also. Good work at good wages is inevitable in such conditions. And these conditions will follow upon the means of extension of old, and multiplication of new, business concerns, which will be practicable to employers if national or Imperial credit is allocated to them on the terms proposed. Competition and mechanical powers of production can be relied upon in such conditions to keep down prices and maintain the purchasing power of money. On the one hand, the wings of monopoly abuse would

[1] *The Wealth of Nations*, Bk. I, ch. i.

be clipped by making the credit facilities open to its present victims.

A man who from making twenty pins in a day is enabled to make four thousand eight hundred without any increase in wages has clearly made a sacrifice in the interest of the State. Not of himself, for he received his wages, and their purchasing power has increased at least in respect of pins. But he has sacrificed his fellow-workers who are not now required, and their purchasing power, even though pins are so much cheaper, is *nil.* The pins are cheaper because one man only instead of a large number has to be paid for making them. The men dispensed with are the sacrifice. They are supposed to be able to find other employment. But except in abnormal times, when the whole nation is required to make war munitions, the same process is going on in every trade with the march of invention and labour-saving machinery. There must be mechanical progress, but this must not be by the sacrifice of human life and means to live. Trade union leaders strive to remedy the evil by rules for limited work in time and kind, and applying the principle of "one man, one job," a process by which organized labour disorganizes industry. A limitation of the work of one man in order to leave work for another is more benevolent than intelligent. It wastes the time, squanders the youth and energy and deadens the ambition of both. The idea of "one man, one job" is in many cases crass stupidity. Real organization means "one man, one job" when there is enough of the job to occupy the man's whole time. When there is not and he stands aside awaiting his turn and merely watching others work he is conducing to an early death of his employer's business and his own. Industrial topsy-turvydom is at its height when on the one hand one man takes a week to do a real day's work, whilst another does a week's work of twenty men in a day. In both cases the employer probably suffers. In the former, he is worried into bankruptcy by his workers; and in the latter to the verge of it, by those who have financed his up-to-date works

upon terms which call for high interest, a permanent share of the profits and quick redemption of capital. The real remedy for the evil, which would eradicate the abuses which give rise to vain trade union rules, which would help the small employer and would take the big one from under the thumb of the financier, is the free use of national and Imperial credit. This would cause industrial progress in volume, variety and rapidity to keep pace with the progress of invention. Men dislodged from one calling by a new invention would be eagerly welcomed in another, employers being willing to pay them to learn the new calling.

The defects of division of labour are to a great extent overshadowed by the immense increase which it gives to the purchasing powers of those in command of the world's money and credit, or, in other words, in command of the world's medium of exchange. The workers of the world, employers and employed, are not as a body in this position. But they could be given a large share in it by their fixed tools, their works or business concerns to the extent of half their value being entitled to national credit. They would be in the position of the exceptional employer whose command of capital, i.e. banking credit, increases with his business. Take the meat industries of Chicago. Division of labour or organization of industry—the two phrases are practically identical in this sense—has been carried to perfection. "Taking a crew of 230 butchers, helpers and labourers handling 1,050 cattle a day under the union regulations of output, the time required for each bullock from the pen to the cooler, the hide cellar and all the other departments to which the animal is distributed, is equivalent to 131 minutes for one man. But this is made up of 6·4 for the 50 cent man (2s. 1d. per hour), 1¼ minutes for the 45 cent man (1s. 10½d. per hour) and so on; and the average wage per hour of the gang-men would not exceed 21 cents (10½d.), making the entire cost about 46 cents (1s. 11d.) per bullock."[1]

[1] *Economics of Business*, p. 94, issued by the Alexander Hamilton Institute, New York.

Now, when the share of labour out of a whole bullock is only 1s. 11d., and the price of meat, even American meat, is what it is, at any time, however it may vary, the labourer benefits little by any reduction effected in the price of meat, whilst the employer has margin enough to get out of the profit-sales a very wide command of banking credit without having to pay interest for it.

The cheapening of the labour operates in this way. "If the company makes a few of these particular jobs desirable to the men and attaches them to its service, it can become independent of the hundreds who work at the jobs where they can do but little damage; and their low wage brings down the average to 21 cents (10½d.), where if all were all-round butchers the average would be 35 cents."[1]

But that applies only to the labour used. A few men are paid extraordinarily well and kept in steady work; hundreds of men are taken on at low wages as required, and may or may not have regular work. But the perfection of the modes of increasing production and decreasing costs enables the great business, in course of time, to be conducted with fewer hands than when it was not so great, and numbers are therefore altogether deprived of the chance to sell their labour, the only thing they have to sell, and which they must sell, before they can obtain the wherewithal to live. If this difficulty were not remedied much misery would result. But the employer with command of banking credit is in a position to remedy it. His vast meat business yields waste products on a scale worthy of use in other business concerns, and the writing of a few cheques brings vast works and expensive equipment into being which make room for many more highly paid, as well as more lowly paid, workers according to the qualifications of the men. "The hoofs of the animals are made into glue in the largest glue factory in the world. A large soap factory utilizes a portion of

[1] *Economics of Business*, p. 94, issued by the Alexander Hamilton Institute, New York.

the oils and fats. A curled hair factory; a factory for the manufacture of brush-handles, paper-cutters and bone articles; a factory for the manufacture of articles of horn, such as combs, buttons, etc.; a fertilizer factory which works up bones, offal, and blood"[1]—all result from the command of banking credit and the power it gives for the utilization of labour dislodged casually or permanently by the advances made in methods of production. Hence the effect of the command of banking credit by this big meat concern in America has been great enough to counteract the evil done to men whose only assets are mental and manual labour. So many skilled and well-paid posts have been opened up that "the effect of machinery has been to increase so considerably the earnings of the working class that it is possible for them to obtain a thorough common school education before entering upon their work."[2]

But this cannot go on for ever. As automatic and semi-automatic machinery is invented to cover every operation in a complex process, less need for human labour remains. And as this sort of machinery is developed by the standardization of more and more products, the need for human labour decreases still further.

It is one of the strangest of the phenomena of modern economics that the powers most in favour of ever-increasing standardization of products are the least in favour of the standardization of the one product that should be standardized beyond all question, namely, money. What other people use must be standardized—every commodity of every kind must be standardized. The one commodity, money, from control of which they derive their power, is not to be standardized, but must be left to vary according to their own will as to its material, value, quantity, quality and position. Fortunately such economic ideas are bringing about their own destruction. Otherwise the end of civilization would be in sight.

[1] *Economics of Business*, p. 103, issued by the Alexander Hamilton Institute, New York.

[2] *Ibid.*, p. 47.

The effect has not yet been created to this extent in this country because the command of banking credit by employers has been too limited or too costly. And the Government, instead of applying the real remedy, provides palliatives in free education, unemployment insurance, old age pensions, poor-houses, and so forth, all of which are greater evidences of heart than of head.

In the interest of the whole of the working classes, both masters and men, who constitute the majority of a nation, or an empire, and are therefore in the main the owners of the national and Imperial credit, the property in which they are jointly interested is the property upon which the individualized and free use of national and Imperial credit should be based and economically distributed. This property consists, generally, of the following:—

(*a*) Land in productive use and yielding the wages of labour of every kind involved in its operation.

(*b*) Buildings, such as factories or workshops, which are "going concerns."

(*c*) Means of transport by water and land, including canals and railways, and general transport vehicles.

(*d*) Tools and machines, agricultural and industrial, in regular productive use and used exclusively on the land or in the buildings on which the credit proposed to be granted is based.

(*e*) The books and scientific apparatus of the well-qualified scientist, as the physicist, the chemist, etc., employed either experimentally or productively in self-supporting institutions.

(*f*) All productive buildings in regular use for the purpose of rendering personal service which cannot be rendered without such appliances and which are self-supporting.

Sureties may be required for movable property. Insurances must be provided for all property and the lives of persons made eligible for credit by reason of personal skill.

(2) *That approved title-deeds shall be accepted by banks as*

equivalent to deposits of banking credit in terms of money, the uses of this banking credit for production purposes being also approved.

Such deeds are at present acceptable as collateral security for loans, although they are regarded as undesirable, the property not being readily realizable in case of emergency, or when the bank wishes to have the loan repaid for any reason whatever. It is banking credit in terms of money of which loans so made would consist.

The objection may be urged by the banks that under present conditions they charge 5 per cent. interest on such loans. But the loss of these earnings will not be serious, for the banks have always opposed the principle of loans on such security, and have kept them at a minimum.

(3) *That this banking credit in terms of money shall be equivalent to half the value as fixed capital of the property so treated.*

This gives the State and the bank an actual margin of real value, which it is the province of the Government by means of financial, civil, naval and military operations to maintain in any set of circumstances which may assemble to affect it.

(4) *That no interest shall be charged on the banking credit so drawn upon.*

The absence of interest is no foolish chimera to be derided as soon as mentioned. Money lending is the grandfather of modern capitalism as credit lending is its father. The Jews are the founders of modern capitalism, and the view has been expressed by a first-rate authority that "if London is the chief financial centre of the world, it owes this position in large measure to the Jews."[1]

The Jewish genius for finance not only dominates, but has won the admiration of the financial world. Yet amongst the financial rules of the race, even in Biblical days, a Jew was enjoined as part of his religion as follows[2]:—"Unto a foreigner

[1] *The Jews and Modern Capitalism*, by W. Sombart, p. 91.

[2] Deut. xxiii. 20.

thou mayest lend upon usury; but unto thy brother thou shall not lend upon usury."

"It need hardly be added that 'usury' with the translators was nothing more or less than our 'interest.' "[1] The Jews are ready to treat as brothers those who use funds for the production of exchangeable wealth.

The principle is as old as the hills, and its success has well served its originators whatever their practice now.

The Government of the State has control of the general credit of the State in trust for all its citizens; and also the power to lend portions of it, free of interest, to such of its citizens as can show title to the particular loans. The nation as a whole in lending to part of the nation, or the whole Empire in lending to part of the Empire, or the whole family in lending to part of the family, should remember the Jewish tenet, "unto thy brother thou shalt not lend upon usury (interest)." Apart from all considerations of justice and mercy, which are its main supports, the principle ought to be remembered and acted upon because it will pay. Also because it is now necessary to the economic salvation of Jew and Gentile alike, that an abundance of new interest-free funds should be applied in the creation of wealth needed to meet our vast obligations.

(5) *That the annual redemption instalments shall cover a period of thirty years more or less according to the nature of the security and employment of the credit.*

The essential of any credit system is that sooner or later the credit has to be met, and the certainty of its being so is to be the more assured, as the wastage of time and use depreciates the security in a natural way despite the ordinary maintenance by repairs and renewals. Thirty years is a period long enough to render annual instalments light and short enough to avoid fundamental economic changes. The instalments would be paid by the automatic reduction of the credit standing in the customer's name in the books of the bank.

[1] *The Jews and Modern Capitalism*, by W. Sombart, p. 242

In case of default in the redemption of public credit the bank will act as it would against an ordinary defaulter except that it must act as the agent of the Bank of England for the Treasury on specific authority in every instance. Otherwise the banks would take the place of the Government in a situation of great influence.

There would be little difficulty in getting such first charges taken up in sales of property so privileged. Default is likely to arise only from illness, neglect or incompetence, not from lack of opportunity to succeed. There is an economic limit to over-competition when the people are fully engaged in sufficiently diversified ways, and if any particular industry nevertheless exhibits the tendency to over-competition the credit to engage in it would be denied for a time.

(6) *That valuation courts shall sit for the valuation of properties for this purpose.*

(7) *That application for valuation shall be made to these courts by property owners, who shall pay a stamp duty of 2s. 6d. per cent. on the amount of the value declared, and receive a certificate stamped accordingly.*

(8) *That the owners may take their title-deeds before such courts to be stamped as a legal deposit for banking credit to an amount equal to 50 per cent. of that named in the certificate.*

These courts, having jurisdiction over the whole of the Empire where property of the character described exists, should be located in places reasonably accessible to the property owners. Barristers, solicitors and surveyors, as representatives, or applicants (the property owners) in person should be entitled to apply for a valuation of their property, producing such evidence of value as they can. The value decided should be the full value. A certificate should be issued by the court identifying the property, the title thereto and the value thereof, stamped at the cost of the applicant at a rate to cover costs. Certificates should certify the deposit value for banking credit to the amount of half the sum stated on the certificate of full

value, decreasing by equal annual instalments over a period of thirty years more or less from the date of certificate of full value, or the date of its deposit therefor.

No branch of the judiciary would answer the purposes of these courts so well as the county courts presided over by the county court judge, with an assessor possessed of local knowledge. As to the county courts, much of their present occupation would be gone in the greater diffusion of prosperity. Their utility in enabling debtors to gain time, and creditors to disgrace those who would pay if they could, would thus change into a happier function.

No property owner other than a British subject should be entitled to the services of the Valuation Courts. And every naturalized British subject should not only have renounced his former nationality and given proof to the authority over aliens that the renunciation was *bona fide*, but should also have a good knowledge of the English language.

There should be a right of appeal from the decisions of these courts to the higher tribunals in respect of any applications. But the whole procedure should be governed by appropriate rules issued by the Treasury and should prescribe how the Government is to be represented on the hearing of applications.

(9) *That revaluations may be made from time to time in order to maintain the credit for a period not exceeding thirty years.*

For instance, in respect of a property charged in 1916, on a thirty years' basis, in 1921 five of the thirty years will have expired, and five redemption instalments will have been paid. The owner may then have need for a sum equal to these five instalments or part of them, and sufficient reason to believe that his property is still of such value as will entitle him to the same amount of credit, or only a little less in respect of a full period of thirty years. Such owner should be free to apply for a revaluation, and on obtaining a new certificate and paying the

stamp duties to procure the alteration of the endorsement on his deed and his banking arrangements accordingly. Every user of national or Imperial credit should keep his banking account where he obtains his credit, so that no bank need part with the deeds for restamping in such a case as this. No new certificate should be issued without the return and cancellation of the old one. The certificate in every case would be held by the owner so that it might, if necessary, be made the basis of a second mortgage and handed to this mortgagee as his security. But it should bear a statement that any such charge must rank after 50 per cent. of the value certified. The practice of obtaining a new credit before the whole of the old one has been redeemed should be discouraged. This is on the general principle that it is of the essence of credit that it shall be redeemed.

(10) *That the whole of the banks, including the Bank of England, shall be required to open a public credit department and permitted to make a prescribed charge for operating the accounts.*

(11) *That the deeds shall be held in trust for the Government, which shall assume responsibility for the credit advanced upon them.*

(12) *That the Bank of England shall have the Treasury guarantee in respect of all the credit and the management of it and shall establish branches either new or in affiliation with other approved banks in convenient centres throughout the Empire which shall discount the bills of all banks operating in their spheres of influence, and of one another, the rate of discount being decided from time to time by the Bank of England, and not necessarily be the same for different places or bills.*

(13) *That all other banks shall keep an account with the Bank of England in London, or its most convenient branch.*

(14) *That the Treasury shall appoint an Advisory Board, representative of all parts of the Empire, to confer with the Bank of England authorities from time to time, this Board to report to the Treasury, but to have no power over the banking authorities.*

(15) *That all borrowers of the credit shall pay the Treasury a*

sum equal to one-twentieth of the amount of the loan as a fee for its guarantee.

The capital of each of the new Imperial banks or so-called branches of the Bank of England should be provided as to one-quarter by the Government, one-quarter by the Bank of England, one-quarter by the other banks in the various areas and one-quarter by the public, the Government taking up any residue not subscribed after the offer to the public.[1]

Where lawful banks have established themselves, the new banks created for the purposes of the new system may transact ordinary banking business, subject to the business of the interest-free productive credit being that of a separate department.

[1] The Government could provide a sinking fund out of the profits on this investment against contingent liabilities of any kind.

CHAPTER IX

WOULD THE CHANGE HURT THE BANKS?

THIS cannot be. The special credit lent under the new conditions will be well secured by valuable property and by the Government. The accounts represented by it will be profitable. Such accounts, operated by crossed cheques, will merely add to the cheque currency, and whilst they will magnify the figures dealt with by the clearing house will involve no extra legal tender. The normal business of banks will not suffer. The great expansion of business which will absorb the new credit will extend the scope of ordinary banking business for loans both long and short. These securities will be realizable, in practice as well as theory, owing to the greater purchasing power given to the nation generally by the liquefaction of so large a portion of its assets. To the extent to which the banks now lend on fixed capital, a kind of business they dislike, they will lend instead more largely on the liquid securities, which they do not dislike, with not only more profit to themselves, but without danger to their solvency.

The vast amount of depreciation upon their investments written off in past years out of profits will be restored to them. Such investments as Consols and other securities have not depreciated in price because of loss of intrinsic value, but because of the lock-up of credit in fewer and fewer controlling interests and consequent restriction of the one great medium of exchange, as more and more people fixed their capital in this country and abroad. When the means to utilize in the form of free credit the capital so fixed is made part of our financial system, the demand for securities will raise the price to the highest that their yield will dictate amidst conditions not conducive to high interest. The financial position of every bank must be immensely strengthened then, in comparison

with a position in which any attempt to realize the assets upon which solvency depends is foredoomed to failure. The position of bank shareholders must improve correspondingly and enable them to regard with unconcern the liability of uncalled capital which in recent times cannot have been viewed with equanimity.

The enormous amount of War Loan taken up by banks, profitable though it be, will become an embarrassment, as such investments grow greater with the advent of further issues, unless the public are placed in a position to absorb them. The release of credit here advocated will have this effect. Many thousands of mortgagees, debenture-holders and others, with capital so released will most thankfully relieve bankers of their surplus investments in this direction and leave them free to assist in later issues for national and international purposes without the spur of undignified advertisements.

The rediscounting facilities given to all banks will enable them to turn over their credit oftener and in all circumstances. This will have a direct tendency both to increase their usefulness to the community and to increase their profits. As profits are the measure of usefulness in honest transactions, and the means to be useful will be so multiplied, banking profits ought not only to be increased but increased substantially.

Deposits and loans have a further bearing on this question.

The banks having lent their credit, not cash, notwithstanding the fiction pervading financial circles to that effect, the loan being ostensibly secured by the fact of the collateral security held against it, a corresponding credit or deposit in favour of the borrower is opened in their books. This credit is drawn upon by the borrower with cheques in favour of other persons with whom he has transactions. The cheques are paid into their own banks by these other persons, and their own banking credit is increased by the amount, whilst that of the borrower in his bank is reduced correspondingly. All the banks are lending credit as loans and receiving credit as deposits in this way,

rendering the bulk of their deposits deposits of unsound credit. A fallacy occasionally indulged in in speeches on banking is that loans may be set against deposits in scanning a balance sheet. But this is only true in a general way and not true of any particular bank. The weakness of the position is that individual loans cannot be set against the individual deposits because they do not apply in respect of any bank to the same set of persons. Such a position is dangerous in the extreme, and any plan such as that now proposed for greater freedom of credit, which must have the effect of rendering far more readily realizable at fair values the securities upon which the recoupment of loans depends, wherewith deposits must be met, cannot be unwelcome to honest bankers or disregarded by them in either the public interest or their own.

Finally, a source of profit at present timidly indulged in by banks may be extended with increased profit and complete safety.

The new credit cannot be obtained except upon "going concerns." They have to be erected, equipped and started. This implies the procuring of all the necessary capital or credit capital. If all the necessary funds beyond the first charge are assured, if the bank is satisfied as to not only the business opening for such a concern, but also as to the ability of the proposed management, the funds for the first charge may be provided by the bank in the form of a loan at interest, with the certainty of repayment as soon as the concern has become qualified for its share of public credit.

The rate of deposit interest which bankers will allow will depend not merely upon the yield from the outstanding amount of public credit on their books and the interest obtainable upon loans made upon the different varieties of marketable securities, but also from time to time upon the sum of time-deposits upon which interest is expected. In the early stages of readjustment the rate may necessarily fall, owing to the magnitude of the deposits.

Current accounts will come to banks as a matter of course in connexion with the public credit which they handle, so that the hypothecation of bank charges by present competitive practices will substantially decrease.

Apart from the condition of actual solvency into which national banking will be raised, an ultimate and substantial gain in the net profits of banks commensurate with their utility in the increased national business activity will unfailingly accrue.

CHAPTER X

THE TRAGIC HOUR AND THE WITHERED HAND

THE abuse of the Banking Principle of Currency is the withered hand which must be cured at this tragic hour in the country's fate. Let me reiterate the position in five sentences.

1. Financial credit, whether accumulated as savings or otherwise, is a charge against the community.
2. If it is not specifically accumulated and registered at the gold standard of value, it is eventually ruinous to all concerned.
3. THE CURRENCY PRINCIPLE limits accumulations of credit to savings and intrinsic values properly registered at the gold standard rate of value.
4. THE BANKING PRINCIPLE OF CURRENCY, on the contrary, allows insupportable accumulations of credit to be improperly registered, at artificial and arbitrary rates of value, and regardless of the genuineness of alleged savings and intrinsic values.
5. This leads to default in the payment of charges and interest, and to collapse of reputed values, when the ability of the community to pay never-ending charges breaks down.

WHAT SHOULD WE DO TO-DAY?

Section 1

Financial and general industrial crises in one form and another are impending in every country. Great Britain itself will not escape unless the only possible remedy for a situation that has been growing more perilous for nearly a score of years is speedily applied.

The troubles of the world are due to a common cause. This

consists of a monetary mistake made when the Great War began. It was never rectified; rather was it aggravated; and finally it was adopted as sound monetary principle. It has destroyed the standard of value necessary to trade. It has promoted charges that are paralysing trade. And it is now about to destroy the wealth it is supposed to have accumulated.

Every country, Great Britain included, by adoption of this monetary policy, became a Frankenstein which created its own monetary monster. This monster has now destroyed prosperity in every land. As a monetary policy inconvertible paper money develops the vicious general principle under which non-productive credit is created at little or no cost and converted into interest-bearing debt, until a point is reached when all assets become both unprofitable and inconvertible, all debtors default and debtors and creditors alike are ruined.

After so much solicitude for the state of the world our chief concern should now be for our own country. The questions we should ask are of ourselves. The National Debt, when it took investment form, was purchased with so-called money, and this National Debt is the easiest security on which to borrow the same sort of so-called money, or credit, to-day. Despite this fact the writer has no intention of proposing a capital levy or any sort of confiscation—quite the contrary.

Present-day bank deposits exceed £2,000,000,000 (two thousand million pounds). The National Debt, the thing that is most negotiable for loans of this bank money, exceeds £7,500,000,000 (seven thousand five hundred million pounds). By adding these two sums to our legal tender money the total becomes approximately £10,000,000,000 (ten thousand million pounds). None of this is used to produce new wealth. All of it is a charge upon any wealth produced. Wealth so charged ceases to be desirable, cannot be converted into so-called money (hence low prices) and, therefore, ceases to be wealth.

Where did the money come from which accumulated as this

charge against wealth production? Before the war nothing like the amount of liquid funds existed in any form. Even if one is told that the excess over pre-war times was money made in the war, deposited in the banks, and then lent to the State, that does not account for the bank money that made these chameleon-like changes practicable. The question still remains: "Where did that money come from?"

The money cannot be represented as a surplus of commodities saved in the war. Those who acquired the money, and turned it into some form of War Loan, did not spend it on surplus commodities. They lent it, and those to whom it was lent expended it, during the war, on commodities which were either destroyed or otherwise unproductively consumed.

Yet the thing itself still exists. Clearly this great monster is the creature of our system of money of account and is expected to be fed with money even after all else has been destroyed or consumed.

It could have come into existence only as inflation money, generated, on banking principles, from debasement of the gold standard of legal tender money, when fiduciary paper became the cash reserves which measured the quantity, and ignored the quality, of banking credit or money of account.

The fiduciary issue of legal tender money is £275,000,000 (two hundred and seventy-five million pounds). We know that the whole of this paper money at one time or another passed through the Bank of England and that it gave rise to four times its quantity in banking credit created there. We know also that this inflation bank money at one time or another appeared as deposits of the other banks at the Bank of England, and as such gave rise in those other banks to bank money of nine or ten times its amount. It is this banking principle of money which has left us with controlled inflation in the form of National Debt, debased legal tender money and existing bank deposits. They are not real riches. They are not real savings. They are an accumulation—a machine—engaged in extracting

interest at the approximate rate of 5 per cent. per annum from the wealth that is being produced. If that production of wealth should cease the monster will have nothing to feed upon. Yet on every hand grave doubts are appearing as to the possibility of the production of wealth being continued under the voracious strain.

What has this monster of inflation money already cost the country? Assuming that the average rate of interest has been 5 per cent. on loans, and that the creation of this money, through banking principles, for dissemination as a permanent charge against the production of wealth in this country, has amounted to no more than £10,000,000,000 (ten thousand million pounds), in that case the average annual charge against the productive pursuits of the people has been no less than £500,000,000 (five hundred million pounds). This sum measures the annual rate of cash starvation of wealth production now approaching the gravest crisis that ever befell a civilized country.

We are nearing the twentieth year of this drain of £500,000,000 (five hundred million pounds) per annum. At the end of that time all that is left of substance, underlying the huge monetary inflation, will have necessarily vanished from the possession of those who have been engaged in supporting it. These people will then default to the extent of the next £500,000,000 (five hundred million pounds), and the securities to the tune of £10,000,000,000 (ten thousand million pounds) on which the default is made, will become the waste paper that during the course of their 5 per cent. life of twenty years they (the securities) have tended more and more to be. The repercussions of a collapse of securities on this scale need not be discussed.

Death duties on productive machinery and working cash; income tax and surtax on income from productive work or earnings; these deductions from capital have hastened the climax.

This is the crisis that is staring the country in the face and staring almost every business in the face.

It ill becomes the defenders of this crushing system of money to ask where the money is to come from to rectify it. It ill becomes those who have spread the disease to hesitate to apply the only possible cure.

However, the time for argument is passed. Destructive credit and restricted consumption have reached the limit. They can be neutralized to prevent the paralysis of trade only by *privileged and general* production and distribution.

That mighty mass of securities can be saved only by a new provision of sound money and productive credit adequate to the obligation required to be met.

The remedy does not depend upon conferences, or upon ever-widening circles of International Banks; or upon settlement of War Debts, or questions of Reparations. It depends upon honourable treatment of our own people.

It depends upon specific immediate and dynamic action within the orbit of the National Government, our Treasury officials and the Bank of England.

For years I have urged the "proper authorities" to be wise in time. These words sound empty now. But by dynamic action the breath of economic life and individual prosperity can still be sent through millions of our people who are already verging on despair.

This question is not international in the sense of a common solution being now possible. Those who have desired that we should save the world should now see that we can do so only by first saving ourselves.

This is not a small thing, but its ways and means are simple, and imperative.

Section 2

These ways and means involve a money and credit scheme for the Bank of England and the Banking System; for the

restoration and great expansion of the internal and external trade of the country; and for the preservation of investments.

To this end the *nature* of the true gold *standard* of value and the measure of money has to be restored. The *nature*, not the *value* of gold, is the vital factor. Its point is to ensure that the *nature* (as distinct from the quantity) of prices shall be fixed. The *quantity* of economic prices responds to economic supply and demand.

In order to economize the use of gold, which it is always necessary to do, under the true gold standard of value, other commodities must pass freely as gold equivalents in trade. In this the quality of prices is paramount. It is a grave mistake to suppose that either the easy general circulation of inconvertible paper money (said to be equivalent to "other commodities") or the easy transfer of credits called money of account, can solve this problem.

It is gold as a commodity that is the crux of the question. Every price must be a true gold price, either a counterpart of gold, or gold itself, on the one hand; and must have a real "other commodity" of which the price is openly quoted, on the other hand.

Just as gold must be genuinely the commodity on one side of the price, so must the commodity quoted for be genuinely the commodity on the other side of the price. This is stressed because high taxation, high rates and high interest are not real commodities in the necessary sense. They are neither cotton nor other goods; they are not gold; they are not prices; nor can they possibly be any serious part of prices, if trade is not to be paralysed.

The problem that general commodities must pass as freely as the proper economy of gold requires is the problem which, for lack of a solution, is destroying trade and promoting general bankruptcy.

The *nature* of the credit in the scheme here proposed is the solution of this commodity problem.

THE BANK OF ENGLAND MUST ACT

The Bank of England must initiate the scheme. Its own position requires this. It should do so by arrangement with the Treasury, which should obtain the necessary legislation at the instance of the Bank. No foreign aid by negotiations with other countries need be sought.

The Bank of England should require the scheme in order to remove debasement from its own legal tender notes and so to restore every one of these to the gold sovereign parity. Without this the whole banking system of the country is in danger of insolvency. The responsibility for this lies largely with the Bank of England, since it agreed to the merging of the currency and bank notes.

The Issue Department of the Bank of England must be reinstated on the lines of the Bank Act of 1844, except that, so far as necessary, notes of the denomination of 5s. must take the place of £1 and 10s. notes. In respect of the total of notes there must be a gold cover of 123·27 grains eleven-twelfths fine to each pound. That is the answer to the great Sir Robert Peel's famous question: "What is a pound?"

I may be excused the digression, if I say that this question and the answer to it describe nothing other than the currency principle in money, which is the principle of preventing fiduciary issues of legal tender.

Fiduciary issues, or credit legal tender, are loans forced from the public at no interest to be lent later to the public at interest. Such issues, under the banking principle of currency, to which the currency principle is opposed, are the basic cause of a great growth of funds and charges which hamper the production of wealth, without producing wealth themselves. They cause capital to cease to produce wealth

and in doing so they deprive capital of the function which entitles it to its name, its definition and its very existence.

The eventual conversion of all capital funds into a drag on production is the direct consequence of fiduciary issues operating under the banking principle of money and credit. Certain and general ruin is involved in this principle because no class of the community can possess wealth for long under fixed conditions which destroy the production of wealth and change assets into liabilities.

The Issue Department of the Bank Return after the change would have read on Wednesday, May 18, 1932:—

ISSUE DEPARTMENT

Notes Issued:	£		
In Circulation	as may be	Gold Coin and	
In Banking Dept.	as may be	Bullion	£122,830,040
	£122,830,040		£122,830,040

N.B.—The old Government debt would have been transferred to the Banking Department.

CANCELLATION OF FIDUCIARY CIRCULATION

This being so, how would the post-war fiduciary legal tender notes have been disposed of?

By Act of Parliament or Order in Council and subject to the issue of new notes, they would have been disposed of by being made payable into banks in exchange for some of the new notes and for credit in the books of the banks.

Banking credit instead of fiduciary legal tender would then have been made almost the sole media of exchange for payments of £1 and upwards.

Apart from other considerations, this step is necessary because the whole financial position of the country is unstable whilst legal tender currency can be demanded for hundreds of millions of pounds in case of panic sales, maturing obligations, encashment of savings and Saving Certificates, etc.

No refusal to pay legal tender would be permitted by the innovation proposed, but all those who insisted upon payment in legal tender of one pound upwards would be required to pay a poundage in stamps which would make the receipt of payment by legal tender definitely undesirable.

Nobody would be debarred from paying in legal tender, and the recipients in such event would then have to be willing to pay the poundage.

Banks within the country would be exempted from payment of this poundage in acknowledging receipt of deposits, etc.

There should be no such exemption in foreign payments, and gold taken abroad would be treated as legal tender and made subject to this stamp duty; but the gold would otherwise be free to go, on completion of the full introduction of this scheme, in both its gold and "other commodity" bearings.

This restriction on the use of legal tender and gold would be removed when trade in general commodities had been restored to economic conditions of production and distribution. Commodities of all kinds would then have regained their purchasing power—or in other words their trade exchangeability—and would therefore be once more acceptable media of exchange in themselves as registered financially in specific self-liquidating banking credits and bills.

PROMOTION OF THE CHEQUE CURRENCY

The promotion of the cheque currency in the economy of legal tender would require the removal of the cheque tax, or its reduction to a penny or a half-penny. It would require also the restoration of penny postage and facilities at banks for certifying cheques. The last-named facilities would have to be provided so that cheques in payments could be safely received. All cheques would be crossed and bills would be prevented from passing into currency by indorsement. Post offices could be used for cheque service in places where no banks yet exist.

BILLS

All new bills drawn after this innovation should have documentary evidence of commodity value attached to them, at least until the restriction on the use of legal tender currency had been removed.

For the time being it should be a penal offence to draw, accept or endorse bills the object of which is to obtain the *new* funds from the money market merely to renew or replace preceding bills or to make long term investments or other purchases, directly or indirectly, the proceeds from the *sale* of which were to be the principal, or only, means with which the bills could be met. The present, or old, position, would be liquidated gradually without disaster as the new position took shape.

TOKEN COINS, SOVEREIGNS AND 5S. NOTES

Small cash payments would be amply provided for by the silver and copper token coinage and the 5s. gold-covered notes exchangeable at the Bank of England, at the rate of four to the pound for a sovereign; the sovereign, however, would not be tenderable as a sovereign for making a payment without placing a receiver of it under the obligation to pay the restrictive poundage. No such tender need be necessary.

The limit of payments not requiring a poundage acknowledgment would be 19s. 11¾d. Receipts given for crossed cheques would bear only the present normal stamp duty.

CONVERSION OF CURRENCY INTO NOTES AND CREDIT

The imposition of the poundage payable for receiving legal tender would hasten the conversion of the present fiduciary notes into banking credit.

Only some of the notes of larger denomination, and none of

the £1 and 10s. notes, would be reissued. The banks throughout the country would then send statements of their holdings of bank notes to the Bank of England, and the Bank of England would arrange to receive these notes in exchange for corresponding proportions of the Government securities now held by the Bank of England itself against the fiduciary issues.

These securities would be interest-bearing, at an agreed rate of interest, and redeemable gradually out of the resources of the State as resources became available from sinking funds, budget surpluses, etc. They would be a charge on the Consolidated Fund.

BANKING DEPARTMENT

The Bank of England would participate in its Banking Department in the distribution of the securities to the extent of the notes that that department would hold.

LIMIT OF DISTRIBUTION OF SECURITIES

As the distribution of the securities would not exceed £275,000,000 (two hundred and seventy-five million pounds), the excess of notes over this amount would not be exchanged for securities. The conditions of exchanging the excessive notes would meet this question.

EXCHANGE AND DISTRIBUTION OF NOTES

An option to take one-third in notes and token coins, and two-thirds in banking credit, should be allowed when the exchange takes place.

For example, in the exchange of £1, a 5s. note and 1s. 8d. would be issued, and 13s. 4d., credited; and in the case of £3, four 5s. notes would be issued and £2 credited. Credit only should, as far as possible, be given in exchange for the larger notes.

PRICES, GOLD AND OTHER COMMODITIES

Legal tender having been thus restored unequivocally to gold, interchangeability of commodities would be required to enable all commodities to conform to gold as a measuring commodity. Interchangeability of "other commodities" with one another in general, and with gold in particular, is necessary to the free exchangeability of commodities in trade.

This interchangeability has been almost paralysed by the absence of the true gold standard of value, as the measure of gold prices. Hence the growing impracticability of trade in general.

This necessary interchangeability makes gold the fixed pivot of the moving needle of the compass of trade whether in directing the movements of commodities or of prices.

This is the reason why prices cannot be regulated by central banks or by so-called managed currencies or by manipulation of markets, if general trade is to be done.

BALANCING OUTSTANDING CREDIT BURDENS

The enormous credit obligations in the form of National Debt and other mortgages, to which all industry is now pledged in this country, is the measure of the productive credit *that must be created in financial form*, to make gold *inter*changeability of commodities, and therefore general trade *ex*changeability of commodities, possible again. (See later note in regard to restricting purely Finance Bills.)

NEW PRODUCTIVE CREDIT INTEREST FREE

Furthermore, the heavy burdens of abnormal taxation, rates and interest, make it necessary that the new productive financial credit shall be interest-free, and weighted with only such

charges as would represent not more than 3 per cent. per annum, including redemption charges, spread over a period of, say, thirty years, more or less, according as the security on which the credit had been created could meet agreed redemption by fixed annual instalments.

(If the instalments could not be supported by the specific security—as distinct from the Government security—proposed as the basis of the credit, the proposed basis would cease to be eligible and the credit would not be created.)

BANK OF ENGLAND SPECIAL TREASURY DEPARTMENT

The Bank of England would create a separate Production Credit Department, which would not appear in the weekly Bank Return, seeing that otherwise our competitors would learn too much about the aid being given to the promotion of the trade of the country.

The Bank of England would create the credit against Government securities, which would also be created as and when, and not before, the credit has to be actually written up in the Bank's books. These securities would bear no interest, the credit secured by them being interest-free also.

TREASURY GUARANTEE

The Bank would be paid remuneration by the Treasury for the administration of the Department on behalf of the Treasury. A balance on this account would, as time passed, accumulate from guarantee fees equal to one-twentieth part of a sum equivalent to each credit which every borrower would have to pay to the Treasury for the guarantee.

This guarantee would be the *raison d'être* of the Government securities which the Government would be called upon by the Treasury to lodge against each credit.

TREASURY GUARANTEE FUND

This fund from the guarantee fees would be invested possibly in countries abroad, and in time would prevent any dearth of foreign credits in the event of war or other national emergencies. It would be some years, of course, before the fund, through investments abroad, could reach adequate proportions for any really great emergency. The fund would meanwhile be a reserve against losses on the production loans, although from the nature of the case no losses could occur.

Productive property so privileged as to production credit would go to a premium, rather than suffer depreciation, even though an incompetent occupant had to sell his holding to another producer to avoid default.

DISTRIBUTION OF NEW PRODUCTIVE CREDIT

The intitial credit distribution by the Bank of England would be to answer the call of the joint-stock and other commercial deposit banks for an interest-free credit for a customer who had obtained a Treasury certificate for a credit through his banker. The customer would by then have placed the deeds of his specific property, with certificates of value and profits, with his banker or charged them to his banker. Sometimes profits for this purpose would only be assured by the grant of the interest-free credit, owing to the abnormal times we are passing through. In many cases the saving of interest and charges would turn loss into profit. The joint-stock banks would be remunerated for distribution and book-keeping of the interest-free credit by 1 per cent. for the first year, and one-half of 1 per cent. for each succeeding year, on the full amount, over the whole period of the credit, until the last instalment had been paid by the customer to his banker for transfer to the Bank of England for cancellation there. Throughout the period, this process of cancellation would take place at the Bank of England as redemption instalments were paid.

GRADUAL ISSUE

In the issue of credit the joint-stock and other commercial deposit banks would draw on the Bank of England Treasury Account and place to the credit of the customer, not the whole amount of an authorized credit at one time, but, maybe, only instalments, as and when the customer had to make actual payment for production machinery, premises and other fixed capital; or in full in the case of a redemption of an existing first charge on his production property in the carrying out of the purpose for which the credit had been authorized.

All the new credits would be secured by first charges, either in place of charges existing, which the new credits would be used to pay off, or by new charges.

INFLATION

The reason for the release of the credit to make only actual payments as work is done, is to avoid any possibility of inflation. Whenever the new credit is created, it must further new wealth-producing power more than capable of redeeming or liquidating credit in due course.

Its productive purpose would have been fixed with every successful application for it. It is in order to avoid an inflationary effect that the Treasury guarantee fees must be paid as a preliminary to drawing upon the credit, and not be allowed to be made as an application of part of the credit.

The release of old funds discharged with the new credit would not be inflation. The funds would be needed badly for new trade and new investment in great economic activities.

The release of credit, and the release of it created and lent interest-free, would have an instantaneous effect on the promotion of trade and the revival of values. The railways are a case in point. The credit is to equal half the gold value of the productive property on which it is based. In the case of the

railways, this means not less than £400,000,000 (four hundred million pounds). They would raise the fund to pay the guarantee fee of the Treasury by a special loan in the money market of £20,000,000 (twenty million pounds). The railways are weighed down with charges on that £400,000,000 (four hundred million pounds). If £400,000,000 (four hundred million pounds) of the new interest-free credits were released to them, under conditions which would cost them, including redemption, £12,000,000 (twelve million pounds) per annum for forty years, they would save probably six million pounds per annum in the standing charges which, in poor trade and road competition, are threatening to destroy their once gilt-edged securities.

These securities would be paid off in full, although now at a discount and £400,000,000 (four hundred million pounds) would thus be made available for new investment. In forty years the railways would be free of these prior charges.

The junior railway securities which are now so low in price would almost certainly recover. The £400,000,000 (four hundred million pounds) set free would seek reinvestment, some of it abroad in loans which would be permissible if sent in commodities supplied to the borrowing countries. Tariffs could not keep out borrowed goods and tariffs therefore could not prevent this trade. The securities such countries could offer would rise into real values through this revival in their trade. The commodities supplied should be such as would revive their trade.

The £400,000,000 (four hundred million pounds), if not invested abroad, would be a standby to force conversion of the big War Loan at a rate of 3 per cent. or 3½ per cent. as a long term loan and as a sanctuary for further funds that would be released. This was written long before the big Conversion.

The funds released, restored to par, and available for reinvestment, would have plenty of opportunities in the enormous

new activities in this country arising from a *free* first charge in every kind of productive industry; the kinds being driven to correspond in variety to the greatest number of economic wants. Success would be assured because no over-production in any industry is possible when no artificial limits to variety in general production are imposed. Mutual limitation then arises from the predilections, varied wants and limited working time of the people. Kinds of production and consumption would multiply in great variety in response to effective demand.

If there were any danger at all of over-competition in spite of mutual limitation, and in spite of people being too easily prosperous in favourite callings to bother to engage in wasteful competition, then in that case an advisory committee, provided to inform itself on the state of trade, would advise the suspension of further credit into the particular line of production that tended to be overdone. But, I repeat, that when production can be really general, and equally varied, there can be neither over-production nor over-competition, nor under-consumption.

SHOULD THE TOTAL CREDIT BE LIMITED?

The issues of credit, if the purposes were adequately diversified, could continue without reconsideration of the policy until the amount owing to the Treasury was equal to the amount owing by the Treasury in the form of National Debt. When the latter fell, and the former rose, to a balance, the policy could be reviewed.

INTERNATIONAL LENDING, BUYING AND SELLING

The moneys released for reinvestment would enable the country to become again speedily the greatest lender, the greatest seller and the greatest buyer in the world. With docks and railways and motor transport extended, shipping multiplied and freights in and out abundant, unemployment would cease;

taxation and rates, with the cost of social services, would be enormously reduced from prosperous budget surpluses and the production of wealth would rise to the quantities and kinds necessary to make our vast burden of debt wholly good, instead of a growing menace to the welfare of present and future generations.

The world area of fourteen millions of square miles of Empire gives the space for all the wonderful expansion in population and trade that the plan makes practicable.

DISCOUNTING OF BILLS

The discounting of bills with proofs of commodity values attached would become important on a great scale. It should be the obligation of all bill brokers and discount houses and banks to discount these trade bills for customers at no higher discount rate than 3 per cent., the Bank of England undertaking to rediscount all such eligible bills at a rate not exceeding 3½ per cent. if called upon so to do. This would be a discrimination in favour of trade bills, only when bank rate were higher for other purposes.

The new credits after release would increase the deposits of all banks; larger balances would arise in business which would also increase them; thus the banks would have ample funds for discounting purposes.

REDISCOUNTING AND A HALT IN PRESENT INFLATIONARY BILLS

The Bank of England should limit its rediscounting of finance bills to the amount already in being, ensuring that accommodation bills are liquidated as speedily as real funds from genuine trade come into the hands of those responsible for the bills.

No further accommodation bills, however eminent the names they bear, should be allowed to swell the present amount. No further credit should be created upon credit (that is, loans

upon purely paper securities) until trade is flourishing in abundance again.

The banks should make few (if any) loans for speculation in stocks and shares. The rises in prices thus caused are pure inflation unless the security stands for something real, or corresponding intrinsic gold value in active trade commodities.

The Bank of England should continue to make credits, other than trade credits, scarce and dear, when gambling is afoot.

Trade finance will not be prejudiced by these precautions when it is regulated by the new productive credit policy with its pivot of gold.

Especially there should be a limitation of transactions to cash on the Stock Exchange during the first few months of the new production credit policy. There will be a readjustment of prices of securities to a yield of 3 per cent, and this readjustment period should be kept out of the hands of the gamblers.

Buying and selling and borrowing and lending credits, as the alternative to genuine trade and general industry, has brought the country to the brink of ruin.

Nearly all existing financial credits are frozen in purely financial grooves, or are prevented from being employed in trade by losses that are certain to be incurred in transactions in which goods are so heavily weighted with charges.

To revert back to the promotion of commodity trade, commerce and general industry on the great scale, by providing to that end the scheme of productive credit, with its rigid money measure, will rapidly restore the country to the thriving trade centre and the kind of financial centre that it ought to be: for sound finance depends on thriving trade.

This country alone can lead the way and the Bank of England must lead the country.

FOREIGN EXCHANGE

On our resumption of gold standard legal tender money, the foreign exchanges would have to deal with a real pound, supply

and demand in relation to which could no longer constitute the pound, or decide what the pound was composed of. Demand for a thing has always been something different from the thing demanded.

The pre-war pound, re-established under the new scheme, would rise to a premium in foreign currencies. It would lose the discredit, and trade-paralysing effect, of being a gambling counter. The charges on our ships in ports abroad would cost our shipping companies appreciably less. Exports in British ships would in consequence increase materially; and so would the coasting and port-to-port trade, of British ships, in all parts of the world.

Our export trade, instead of being injured by the dearer pound, would be largely increased under the new economic costs and conditions of production resulting from our new industrial finance. Buyers abroad would be multiplied, by the large loans which we could make to their countries and their approved importers, limited, subject to security, only by the stipulation requiring the loans to go in our goods, in order to prevent them from being taken in gold or credits, instead of goods. When the great trade that our country requires had been fully established, this restriction on loans could cease, but not before. The country's trade would then win its own way into world demand.

Meanwhile it is a sound restriction in the interests of the loans themselves. The scheme would have released abundant funds for such loans, and the practice of supplying them in commodities, which made for the progress of the borrowing countries, would make the security safe.

The restoration of the pre-war pound would effect a considerable saving on the purchase of dollars for our American Debt service.

On the other hand, the receipt of War Debt payments and Reparations would rapidly become of less importance to us, in connection with the budget. These receipts would be of value

only for the purchase of raw materials helpful to our home and foreign trade, if the demand for such raw materials by us in the new accession of trade, relatively to available supplies, tended to raise their prices unduly.

A RUN ON OUR FOREIGN CREDITS

It is not conceivable that there would be a run on the country by friendly interests to withdraw credits when the pound had been restored to its sovereign self. Rather would more wealth be stored here. Still, if the possibility of a run is feared, it should be banned. There are, as has been indicated, two sides to this gold standard question.

When the pound had been restored on the gold side there might be a "run" before it had been re-established on the commodity side, the latter being slower in action than the former. During the difference in time involved, however, foreign creditors could be warned against a premature withdrawal, and told that the rate of payment of credits so withdrawn would be the present gold content of the pound (less than one-third of the nominal credits) unless withdrawn in goods shipped from here.

In three months this embargo could probably be removed. It would then be found, however, that even the gamblers would prefer to take their credits in goods, or by the purchase, in their own countries, of debts due to us for goods supplied from this country.

Moreover, as gold would then flow into the country to buy our gold-based goods, no evil would result from allowing credits to be withdrawn in gold.

CHAPTER XI

WOULD THE CHANGE AFFECT CURRENCY?

It would provide all the currency needed for all currency purposes. It would decrease the use of legal tender currency, in favour of cheques, bills and token coinage. It would neither hold up currency for trade, nor trade for currency.

Legal tender is money which a Government declares by law to be the money of the State. Legal tender in one country is not necessarily so in another. English sovereigns circulate in nearly all countries, not because they are legal tender but because the gold they contain has exchangeable value in itself. Generally speaking, the money of one country is accepted in that country alone.

This circumstance led to the exchanging of one kind of money for another, instead of for commodities and services, and initiated the money-changers of Biblical days who practised it as a business. Strangers arriving in a foreign country took their strange money to the money-changer and received from him as little as they would accept of local money in exchange for it. When the strangers wished to return to their native land they took what they had left of local money back to the money-changer and received in exchange as little as they would take of their original money. The money-changer made a commission on both deals, and sometimes more, if the stranger within his gates lacked experience. Even if the profit was small, world-wide exchanges of this character yielded the little yellow grains that made in time a shore of gold which ultimately lent itself to the absorption of much water taken in and parted with according to the tide of business affairs. This convenience of travellers is nowadays met, as a rule, by letters of credit issued by banking houses. These letters liquidate one another in clearing-house settlements between the banks involved.

A trader who did not travel to the country from which he purchased goods, but had to pay for them in the legal tender of that country, used to purchase with legal tender at home from a money-changer a written right to receive foreign legal tender from the money-changer's correspondent abroad. This he posted to the trader there who had sold him the goods, and who took the draft to the money-changer's correspondent and received the requisite legal tender in exchange for it. Nowadays the complexities of foreign exchange in the manipulation of credit instruments to the practical elimination of the use of legal tender are the outcome of these tedious, wasteful and risky processes.

As money-lending was the one grandparent, so money-changing was the other, of the modern system of paper finance. When the Jews were a persecuted race, driven from one country to another, they carried away their wealth in money and precious stones, and acquired the habit of dealing in these valuables because others were not so easily portable. Fixed assets in any particular country were of little value to them, seeing that they could not be taken away by people fleeing for their lives. Hence it became a Jewish notion, which the ultimate powers of the Jews in finance imposed upon communities generally, that fixed assets or fixed capital are comparatively valueless because immovable. The strangest thing in modern finance is that the Government of every country appears to have accepted the doctrine that these possessions of its people are, comparatively, of no exchangeable value. The banker's plea that the securities acceptable by him against loans must have a free market to enable him to realize them in an emergency is a direct descendant of the situation in which the Jews frequently found themselves, compelled to change their possessions into forms which they could carry when hastening away to a safer land. Our own Government has accepted that as a principle of sound banking, or at least has done nothing to veto it. It has consequently helped to render fixed capital

so fixed as to compel the payment of a heavy tax, not only in the form of interest, but also in sales at knock-down prices, upon every owner of it who, having so fixed all his capital, is compelled to borrow on it for working capital, or to try to borrow and fail. As "trade followed the Jews" the countries which received them profited thereby, but not in this phase of finance to which their shrewd adaptation to their peculiar and precarious condition in the social economy gave rise. The masses of every country have been indirectly punished for this harrying of the Jews by the necessary development under such treatment of a system of finance which was internationalized through these very "harryings" from one place to another. It has imposed upon industry the heaviest tax of all, weighing it down with interest that depresses wages or raises prices by increasing costs of production, impeding or altogether arresting its progress, and more than any other industrial influence, appointing receivers for the winding-up of "going concerns" and bringing "grey hairs with sorrow to the grave."

If bankers generally *could* realize their alleged "marketable securities" in a general emergency, one could understand the principle on which they act. But facts have proved it a principle impossible of application, except in a small way, in times of no general emergency, against first one individual and then another who by its means are crushed out of business existence.

The struggle for "currency" for one purpose or another, or for the right to "currency" at any particular time or place is at the root of all these operations. "Currency" is the medium of exchange, and the number and volume of exchanges practicable in a community within the limits only of the satisfaction of its fullest requirements are consequently controlled by it. Control of currency means nothing less than control of trade. Hence the right to trade is subject to the controllers of currency. The right to trade is a national privilege of very great

value, affecting the interest of every person in the land. To learn that it can only be operated by those who control the currency prompts the registration of a pious hope that the currency is in the control of impartial people with no very special interests of their own to serve and actuated solely by a desire for the welfare of the nation as a whole without any bias in favour of a mere section of it. The Government itself must surely occupy the position. No other entity could afford to be so unselfish in the exercise of a power so far-reaching and a monopoly so vital. But the Government does not occupy that position. Time was when it did; in the days when legal tender was synonymous with currency. But that time has gone. Currency consists of money which is any material that by agreement between the members of a community serves as a common medium of exchange (and measure of value) in trade. It may consist of articles having intrinsic value, as cattle, copper wire, or pieces of cloth. In such circumstances, those who control all the cattle, copper wire and pieces of cloth are in a position to prevent any trading that is not to their liking. Or it may consist of articles having only an arbitrary value, as wampum, beads, or cowries. In these circumstances, those who control the stock of wampum, beads and cowries to an equal extent control the amount and kind of trade that may be done. Now it is printed paper.

We know that from early times commercial nations have used gold and silver current by weight in Eastern countries, or in stamped pieces in Western countries, as either customary or legalized currency. And we know that control of gold and silver has from early times—and whether in East or West—regulated Eastern and Western trade.

In modern times we find a currency partly of coin and partly of paper, issued by a Government or by a bank on the authority of a Government and made redeemable in standard coin, i.e. stamped pieces of gold or silver. In our country it was once redeemable in gold. But gradually we find that those in

control of the Government notes or bank-notes redeemable in gold are not in control of our trade; that the magnitude of such trade is quite beyond the comparatively short and feeble range of our legal tender reach. And what is the truth? Simply that those who control legal tender have ceased to control trade because legal tender has ceased almost absolutely to be the real medium of exchange. Credit, operated by various forms of paper called credit instruments, has taken its place, and those in control of credit have taken over the control of trade. The outcome of this is the superstition that trade is unnecessary and must look after itself. It is held to be sufficient that borrowing and lending at interest is the best kind of trade, seeing that it has no concern with trade unions and labour troubles. It is the people of England who are in the position to deal with this paralysis of trade. It is this which is the withered hand. The Nazarene taught them to say: "Stretch forth thy hand." The insistent stretching forth of the withered hand of trade and commerce will be its cure.

CHAPTER XII

WOULD THE CHANGE AFFECT OUR DAILY LIFE?

WHATEVER affects the media and mechanism of exchange must affect the transactions of every subject of the Crown. Every action of his business life, private life, public life is measurable in terms of money.

The fact of having a vote, and the fact of not having a vote, have consequences inseparable from the question of pounds, shillings and pence. In the municipal hall the question of expenditure is a skeleton in the cupboard at every discussion and debate; or the Banquo's Ghost which, unspoken and perhaps unfelt, invariably shapes a future Nemesis. The appointment of a teacher by the education committee affects the finances of not only the council, the teacher, the ratepayer, but thenceforward of every child brought under the teacher's influence; for education of any and every colour regulates in an infinite variety of ways, ideas of every kind on any subject capable of occupying the mind; and everything thought, done and said, anywhere, anyhow, at any time, has its influence sooner or later upon the coming or going of pounds, shillings and pence.

In the Houses of Parliament a distinction is made between money bills and other bills as if it were possible to produce a bill in which the coming and going of money had no concern. The moneyless policy called *laissez-faire* in the national economy, responsible for so much ill-regulation of our trade under the pretence of "letting it alone," has had no more existence in fact than the imperceptible soap and invisible water in which some of its advocates are continually washing their hands. The regulation of national expenditure and income in any branch of the national accounts, in social reform or otherwise, however apparently remote from trade and commerce,

has a direct effect upon the coming and going of the pounds, shillings and pence with which the citizen is able to trade. And the voter has a say in the policies followed, not only in respect of his own interests and desires, but in respect of the interests and desires of non-voters whose fortunes he is thus permitted to weigh in the balance of his own peculiar views.

Every rule of every trade union, whether it deals with questions of wages or hours or not, and despite no thought of finance in its discussion and adoption, has its money effects stretching throughout the community, in ever-widening circles, until they reach the remote parts of the earth whence they react in unending ebbs and flows. Volumes might be filled telling the story in pounds, shillings and pence of the ways in which individual, social, national and international life of every grade is affected by the force of circumstances regulated by money. The circle of human affairs in a well-regulated modern community coincides with the circle of finance. The one should fit so perfectly upon the other as to disguise utterly the real duality. But there is no community so well regulated. Each is at present a very irregular ellipse with several money centres from which internal forces balance external forces in a variety of convenient equilibria, variants of high interest on money and low prices of goods and services or high prices of goods and services and higher interest on money such as we saw magnified several times in the war-trade boom. The power to direct the channels through which money or money substitutes, as the media of exchange, shall flow is the arbiter of both interest, prices and the accomplishment of transactions. The housewife who holds in her hand the few pence which she proposes to exchange for her quarter of a pound of tea has absolute control over the taking place of this particular exchange or not. The tea-seller would not take tea or anything else than money, and she is the one person there possessed of that money. Upon her will depends the new channel along which

that money shall flow. She understands this, if she does not know its significance, the tea-seller understands it, and for the moment she dominates the situation. The megalomaniacs of power would deprive even the housewife of this participation in it. Where metal and other tangible moneys of intrinsic value are still the media of exchange, many such concrete instances on a greater scale prove the dominance of the controllers of the medium of exchange. If they combine together to buy only at a rate of exchange fixed by themselves in their own favour, the prices they decree are accepted or no business is done, no exchanges are made. It may be said that under such circumstances the owners of the goods and services need not sell. But they must sell. It is probable that credit payable on demand has been borrowed by them to pay for materials and wages over the long period of preparation, manufacture and warehousing of the goods and their alternatives are sale or ruin. They are therefore forced to sell at prices which bring them to the brink of ruin; and lower still if it is desired to drive them out of business for the purpose of reducing the number of competitors in that line of goods over which an ascendancy bordering upon a ring or a monopoly may be established. High interest and low prices are the desiderata of those in command of large credit capital. If a fall of twopence in the shilling is procured, the purchasing power or exchange value of that credit capital is increased by one-sixth, the controller of £1,000,000 (one million pounds) in credit becomes the controller of £1,166,666 (one million one hundred and sixty-six thousand six hundred and sixty-six pounds) in goods. The value of his money, or his money-substitute, is higher as the value of commodities is lower. If the value of services went up with money instead of down with commodities, all would be well. But the natural aim of the controller of credit is to ensure that everything purchasable, whether goods or services, shall go down together. The only way in which to procure a relatively higher price for services with a relatively lower

price for commodities is to extend the control of credit without interest on the lines of the proposal now put forward. A manufacturer who borrows, when the article he sells is 5s., will not then have to pay back at the rate of two articles if called upon to repay when the price of his article has gone down to 2s. 6d. Nor will he have to cut all his expenses, including wages, in an effort to struggle out of the mire only to find himself driven deeper into it by discontent, disputes, strikes and disorganization. It will not be in the power of the lending interests to force him to sell at a fictitious value; the control which would compel him to do it will have fallen into too many hands; and the organization of that control for this base use will have become either impracticable or subject to such publicity as would defeat the object. It could not then be said of the manipulator of prices, "first this commodity, then that, is struck, always finding the entrepreneur unprepared."[1]

The inclusion of thousands of traders in the privilege of free national and Imperial credit would democratize the credit-capital control to an extent almost incalculable in its effects. The credit-capital plutocracy have done great service in the establishment of the credit system without which trade and commerce on a vast scale would have been impossible, but unquestionably the monopoly of it has been abused, and the magnitude of it has gone far beyond any possible basis other than the property which belongs not to them but to other people. The time has come when those other people should participate in the system by virtue of property which justly entitles them to do so, and nobody *but* them except the Government.

The credit so liberated will be used to promote industry, not to penalize it or manipulate prices to the constant disadvantage of the community at large.

When credit gets into the proper hands, there is no doubt about what it can do in the promotion of industry. Even the credit which has to be paid for in interest as well as sacrifice

[1] *Economics of Business*, p. 157.

of the rights of citizenship does much. It is practically indispensable despite its exactions.

In America, "the process of producing from the raw material a cotton garment, before it reaches the consumer, requires months of time and the participation of many separate industries. The raw cotton must be grown from the seed, ginned, baled, transported, carded, spun, woven into cloth, cut and sewed into the form of the garment, transported and sold to the jobber, then to the wholesaler, to the retailer and finally to the consumer. Practically every step involves an exchange in which a *quid pro quo* is necessary. For example, a cotton-mill-owner cannot perform his part in the chain of production unless he can possess himself of the raw cotton and hold it long enough to make it into cloth. If he has no equivalent to exchange for the cotton, he is stopped from business. The owner of the raw cotton, perhaps, cannot wait sixty or ninety days for his pay and he cannot, therefore, accept the credit of the mill-owner in exchange unless he can sell that credit for cash. The credit of the mill-owner, in the form of a promissory note, is not a medium of exchange which the cotton dealer can use to pay his obligations. The bank, however, stands ready to buy that note (at a greater or less discount) and give for it something which can be used as a means of payment (i.e. a medium of exchange). The bank, a market for negotiable commercial paper, has made possible the exchange of cotton, and the industry of the country has been aided. Because a market for credit exists, exchanges can take place which would otherwise be impossible."[1]

Even though the mill-owner has the capital staked in the country (or is it because he has been fool enough to stake it in the country?) he cannot command the medium of exchange to obtain raw cotton and hold it long enough to treat it, without the toll of 5 per cent. or more to the keeper of the toll-gate of banking credit, although he shows business premises which are

[1] *Money and Banking*, p. 248.

tools wherewith to make the living of men and women who are units of the Nation, although he shows the raw cotton that will come into his possession by means of the banking credit he requires, and although he probably produces other securities, perhaps in the form of the names of friends. This tax upon his time and upon the operation and operators of his mills he must pay, and he has to place himself and his industry under the heel of those who control the medium of exchange. The pretext of lending out other people's money deposited with the banks, with precautions to ensure its safety, and of the necessity of charging more than double the interest paid out upon it even when deposit interest is paid are the means by which control of the media of exchange has been insidiously obtained. What is lent out is not other people's money, but credit created by the bank by virtue of its place in the mercantile machinery far in excess of "other people's money" deposited with it. The elaborate precautions to ensure safety are taken because they know this fact quite well. The obstacles that such precautions present to the development of individual business they are indifferent to. In effect those only with plenty of movable or readily realizable value, have any right to trade, however expensive and up-to-date the plant may be. Those who, with much effort, skill and technical knowledge, succeed in bringing productive works into being must bring something for banks too or go elsewhere, to the "Never, Never Land" to trade. The interest charged is an arbitrary one, fixed by the great capitalist centres and considered to be the maximum toll that the industry itself can pay. Every nominal pound the trader can thus use for his exchanges he must pay for. It is as if every person who, having given value for a £5 note, or a £1 or 10s. Treasury note, had to pay interest on it at the rate of 5 or 6 per cent. per annum for every moment of holding it, and notwithstanding this be challenged by doubts upon its validity and forced to meet them with valuable security whenever he wished to pass it.

Even under such conditions trade can flourish, as it must under the demands of the growing population of the world. But freed from such conditions in so far as first charges on productive property are concerned, what abounding activity would follow! Every British citizen on British soil in any part of the Empire would find obstacles removed from his path, the willing and skilful worker in the army of trade and commerce would indeed find a "marshal's baton in his knapsack," as the great Napoleon said of every French soldier. There would be many fewer superior officers waiting for the security, the fees and the toll, which would convert the baton into a stick to beat him with.

Every Britisher could have a real as well as a sentimental pride in his Imperialism if it meant freedom to trade in the sense that any productive stake in it fixed by him stood as a token of the amount of British credit, i.e. British medium of exchange he was entitled to use in his own right. Who would not wish to fix his capital in such an Empire? What reason could any Britisher then have for living under any other flag? Who but the blind and the halt and the sick need be poor, and why even they when a small charge spread over a big and prosperous people would bring them affluence with a capital A.

Rendering unto the people the people's credit, preaches no industrial millennium but merely the opportunity to do good deeds that makes them done.

CHAPTER XIII

WOULD THE CHANGE AFFECT THE EMPIRE?

It is impossible to conceive a way in which such credit conditions would *not* affect the Empire. The importance of credit has been described as "the life-blood of the economic system, its amount and condition determining whether business be healthy and vigorous, or unhealthy and stagnant. It determines whether the population shall be busy and prosperous or unemployed and poverty-stricken."[1]

It has been shown how control of credit means the control of "the life-blood of the economic system," with power to determine its amount and condition and whither it shall flow, with the chosen channels limited to the will and the whims, the ideas and the designs of the controlling few. It has been asked that the owners and workers whose combination brings about properties productive of the civilized life of the nation on which the main portion of the credit is based, shall be allowed to use that credit to the extent justified by what property of this kind they can pledge as a guarantee of that credit's redemption.

The war exhorted the people of the greatest Empire the world has ever seen to broaden its horizon and take a wider outlook of their own great realms upon which the sun never sets. The man with his nose to the grindstone sees a little. The man in the valley sees more. But broad as the valley may be, embracing rivers, lakes and other waterways, far-extending, undulating meadows, dwellings, institutions, industrial works, farms, railways, tramways, highways and all the other ways of civilization, the horizon of the man who lives there is circumscribed by the surrounding hills.

The man who lives on top of the highest hill may embrace

[1] *Money and Banking*, p. 209. Alexander Hamilton Institute.

within his view not only the vale below, but also much that lies about and beyond it and which leads both to and from it. His horizon is infinitely wider. But the horizon of the bird-like airman is the widest of all. He may extend it in moving circles to embrace the world. His bird's eye may miniature the Universe.

We have kept our nose to the grindstone until we are now driven into the valley. But we must take to the hill-top and the aeroplane. And our Empire and the world must be our horizon. We must lift the heel of subjugation from the neck of British enterprise and clear its path for Imperial expansion. We must no longer crucify it on a cross of monopolized credit. Private credit is one thing. Public credit distributed productively is another.

The reproductiveness of British enterprise ought not to be stifled by artificial checks. Whatever may be said of Malthusianism in its relation to nature, the limitations upon the reproductiveness of business enterprise imposed by lack of intelligence, energy and opportunity are drastic enough. It is suicidal to restrict it further by a system limited to the brain-range of a few financiers whose power should be possessed not by themselves but to a far greater extent by the people over whom it is exercised. In nature every organism, besides carrying on its own life, is an instrument of the propagation of further organisms more or less advanced of its own species. Until its last stages of decay each organism is an asset in the promotion of further organisms. So should it be with every British business organism. Its creation should not condemn it to sterility, and the restricted living of its own business life, but should endow it with power of further creation apart from the fulfilment of its own particular business functions. The universal consciousness which evolved from chaos, and reacted upon chaos in the creation of law and order placed no limits on the true advancement of mankind. So British enterprise is entitled, without payment to a financial section other than the Government, to power with which to give rise to further

separate offspring of British enterprise. The vitalizer of British enterprise is British credit, and every individual case of British enterprise is entitled to its measure of this vitalizer throughout its life, diminishing slowly or rapidly, according to its state of depreciating health, to the day of its death. Let that principle loose over fourteen million square miles of British Empire. It is a sacred duty to the dead on the battlefields of Belgium. It is the answer to new German ambitions. It is the freedom for which even the Great War will have been a small price to pay. It is the Gordian knot of industrial problems, to sever which were well worth the drawing of the sword. It is the way to redeem the long credit opened for us by our Empire-builders of the past who foresaw our needs, and gave their lives for them. Their value to our own safety we have not seen until another power has coveted them. No other power on earth has the scope for such development as has the British Empire. With encouragement of enterprise and unity of credit as the common Imperial bond, with proportionate contributions to forces overwhelmingly protective of great and growing interests, would come the multiplication of our resources, the happiness and prosperity of our people, and a permanent check upon the civil and military instinct of others to expand at British expense. Let our Government in these troublous times permit the servants who have received from a kind Providence five talents be able to say when their day of reckoning is reached, "Behold, we have gained beside them five talents more," and prove worthy of the felicitation, "Well done, ye good and faithful servants." Let our Government no longer compel them to dig into the earth and hide the talents as too fixed capital, so that they may merit the opprobrium "ye wicked and slothful servants." If our Imperialism be made financial by the Imperial utilization of our credit on the broad basis advocated, soon may it be said of the British citizen: "To him that hath shall be given," as it may now be said: "From him that hath not shall be taken away even that which he hath."

Upon this financial foundation much else will arise as its bearings become understood. More unison in the rules and regulations of trade, commerce and society; direct and indirect taxation; religious, physical, intellectual and moral influences and interests; combined efforts for orderly and peaceful progress, resistance to internal oppression and external attack; an Imperialism which will not deck the individual with the uniform of the armed robber with a gospel of "Might is Right," wherewith to mould by force the whole world to his wishes; but which will direct itself to the safety and welfare in trade, life and property of its people; an Imperialism in which none is for a party, and all are for the State; an Imperialism desired by individuals for its conveniences, and by rulers for its defensive power. Such an Imperialism would have a wonderful capacity for being constitutionally governed in the common interest, a wonderful fund of common sense and brotherhood. It would promote an Imperial organism, complete, indivisible and ever-growing, a great and beneficent unity.

For neglect of such financial foundation the Roman Empire fell. As bearing upon that view the following paragraph is quoted from Charles A. Conant, an American writer:—

"There will be occasion in this work to refer to many cases in which changes in monetary laws and the movements of money have been related to other important economic events. In some cases they have been the causes of such events, but in many others only the visible and conspicuous sign due to other causes. Such theories as those of Sir Archibald Alison, in his *History of Europe*, that the fall of the Roman Empire was due to the deficiency of the precious metals, are exaggerations of the part which metals really play in exchange. If the people of the Roman Empire continued to possess the same energy and productive efficiency and the same avenues for distributing their goods at a later date which they possessed at an earlier one, there is no reason to believe that the gradual

decline of the volume of the precious metals over a long period of years would in itself have paralysed their economic progress."[1]

With Americans we British are too prone to dismiss as negligible the view of Sir Archibald Alison, but the time has come for us at least when we have need to throw a strong light upon hard facts.

Sir Archibald Alison exaggerated the part which the metals play in exchange, if one judges from the point of view of to-day, when they have been superseded by credit; but what credit is to-day, so were metals in the Roman time, and had he expressed himself more generally by using "Media of exchange" rather than "metals" he would have been right, most subtly right, for all time. We know what contraction of credit means. We should know what real money means. Every crisis tells the story. The terms are practically synonymous.

"The same energy and productive efficiency and the same avenues for distributing their goods" in a people, whatever their Imperial stamp, depend upon ample command of the prevailing medium of exchange into whatever shape the times have fashioned it. Energy may be stemmed, productive efficiency stifled and avenues for distribution closed by control of the volume and direction of credit. British credit is a mighty instrument of either defence or destruction. We are not using it aright.

[1] *The Principles of Money and Banking*, vol. i, pp. 14, 15.

INTERNATIONAL BALANCING OF TRADE, MONEY AND CREDIT AND RESTRICTIONS ON USE OF LEGAL TENDER

Early in July 1932 *I was asked* (1) *If my plan could be applied with less restriction on the use of legal tender; and* (2) *If progress in machinery could be continued, production balanced and the unemployment problem solved. I replied with the following statements:—*

RESTRICTIONS on the use of legal tender are necessary to protect the holding of gold to the full extent of the paper legal tender. Otherwise gold can be taken for paper.

When this was stopped in England, France, who had been giving us our 40 per cent. gold paper or credit for our 100 per cent. standard gold bars, turned closer attention to America, and it has since taken many millions of 100 per cent. standard gold dollars for a much lower percentage of assumed gold paper. If France does not stop this practice, or America alter its system, America also will have to go off paying in gold.

This will further depress trade. The absence of the gold standard of value always depresses or destroys trade. The idea that present sterling, or a dollar divorced from gold, can promote trade is a myth. Fixed weights and measures are necessary to trade. Elastic ones render trade first chaotic and then impossible.

The same danger to the gold standard of value in the necessary form of legal tender fully covered by gold, can arise at home, and gold default or disappearance occur, when the use of legal tender is not restricted in the manner proposed, before all commodities have been equated to gold.

The following is one explanation. The 5s. notes could be collected by means of the token silver and copper coins of

inferior gold value. These notes would then be converted into gold, unless a heavy enough stamp duty were imposed on the receipt of a *gold pound*. The stamp duty would prevent or counteract the operation of Gresham's Law that bad money drives out good.

When silver and all other commodities had become equivalents of gold (as they soon would under the plan) such exchanges of silver coins or silver bullion could be freely allowed. For both the silver and the gold would then have equivalent power to purchase not only one another but all other commodities; whilst these commodities would also have acquired equivalent power to purchase gold and silver.

The restriction on the home use of legal tender could be announced as temporary and the reason for it frankly stated. This would satisfy the people at home.

If we are not bold enough to be quite frank with the people of other countries, in the way the plan proposes and implies, then the imposition of the gold restriction could be avoided by a definite plan to do no international trade or financial transactions which did not range themselves as imports and exports of goods, credits and gold, as shown in table on page 153.

BALANCED POSITION OF PRODUCTION, DISTRIBUTION AND CONSUMPTION OF PRODUCTS, AND BETWEEN EMPLOYERS AND EMPLOYABLES

A balanced position between employers and employed in the work of production would result from the new importance given to the production of wealth.

Labour-saving machinery and standardization can survive only through consumers, and these, of course, must live.

Under the plan the production of wealth would become the basis of economic human relations, because interest-free, Government-guaranteed national credit would be created for productive purposes, including the reduction and partial

TO PROCURE BALANCE OF TRADE AND PAYMENTS WITHOUT LOSS OF GOLD OR GOLD CREDITS

In an emergency (which need not arise) Exporters should be matched against Importers and vice versa by dual permits:

1. Imports of foodstuffs	To be balanced by countervailing permits	1. Exports of manufactures
2. Imports of raw materials		2. Exports of manufactures
3. Imports of metals (including gold as a raw material)		3. Exports of manufactures
4. Imports of foreign credits to outstand here		4. Exports in the establishment of credits by us abroad
5. Imports of gold as bullion money (*see also* 9)		5. Exports of gold bullion or manufactures, i.e. the latter except when debt or interest is being paid to us in gold, in which case nothing need be exported
6. Imports of bills payable		6. Export of bills receivable
7. Imports of telegraphic tranfers		7. Export of telegraphic transfers
8. Imports of evidence of debt, and relevant securities		8. Export of goods and services (including, say, shipping charges), i.e. loans would be so exported
9. Imports of gold repayments		9. Export of said evidences of debt

elimination of first charges on productive machinery in general.

This form and nature of credit would be used as cash for paying off interest-bearing charges which now largely consist of funds needed by the banks to write down overdrafts and/or lend to employers who can restart businesses which are at present derelict: or businesses which, if restarted without some great release of producing funds on a national scale, could do no more than grind the wind; the reasons for this being high rates, high taxes and absence of demand in business, consequent upon shortage of cash caused by the effect of rates, taxes, etc., upon would-be customers.

It is obvious that in this country to-day even though artificial silk has made inroads on the trade in cheap cotton goods, old cotton garments are worn to shreds by people who would gladly be greater consumers of cheap cotton goods than ever before, if they had the cash to pay for all that they would gladly buy.

A balanced position between employers and employed would arise when cash distribution for production was making the consumption of all kinds of goods practicable. Artificial silk goods would not injure general sales of cheap cotton goods when consumers of the latter had been enabled to produce other things, or render other services, which would enable them to earn the funds with which to make a choice of the grades and many-coloured cotton goods offered them.

The strangest feature in modern economics is that in which every conceivable kind of commodity is sought to be standardized—each into a single or rationed business—whilst the one thing necessary, the one thing in which standardization is vital, namely, the standard of value, is made by the same people the whim of opinions, the shuttlecock of circumstances, a counter in gambling, varying hourly in both quantity and variety. The one thing which the standardizers ought to standardize they will not standardize. Everything otherwise

that customers, consumers, human beings want, or can be made to accept, they declare must be standardized. Consequently the world has been turned topsy-turvy and is on the verge of collapse and chaos.

Credit based on money *standardized beyond question* is essential to purchases and sales and kinds of commodities. To-day, demand must be indirectly re-created by distribution of the credit of the scheme as productive funds. It is the reduction of productive costs so effected that will make commodities move.

No limit to variety must be placed on commodities, in the raw or finished state, in respect of which demand (effective demand as regards means to pay) will then assert itself. Unemployment will then of a certainty rapidly disappear as well as the taxation and heavier incidence of taxation, which unemployment involves. No big business need fear increasing costs of labour. The answer to high costs of labour can easily be more machinery. Balancing by individualist production of special products for small markets permits of this. The biggest business or the least need have no qualms about the new expense of further capital outlay. The biggest business may by reason of its bigness have the biggest claim to the credit of the plan and be the largest distributor of bills of exchange which the banks will be required to discount as a very material means of bank profit, the discount rate being 3 per cent., which the customer of the business pays.

Every failure to provide even small numbers of individuals with a strictly appropriate choice of goods, or with means to meet special wants, injures trade and employment. Scientific management disregards the truth that the living must live and that the bulk of the population of the world cannot be killed off for so-called scientific convenience.

The innovation of machinery which saves wages and produces in greater abundance at lower costs, through some new process of standardization, or a better machine, reduces or

eliminates some human earnings, and thereby destroys demand for many kinds of goods.

A further advance in machinery and standardization continues the evil, and, unless the process is counteracted in its effects, there will be nothing left in the country (and ultimately in the world) except a few employers with a few makers of a few articles by means of automatic or semi-automatic machinery. In these circumstances almost the entire human population of the world will be unemployed, unable to live and unable to purchase the highly standardized human necessities that a too self-centred system has deemed to be the state of economic perfection, as rationalization, or standardization, or organization, or scientific management.

The Principles of Industrial Organization, by Dexter S. Kimball, is as good a book on the subject of standardization as may be. It naturally recites the superficial slogan of "wastes due to variety." I assert that wastes due to variety in inconvertible paper-money standards of value are the only serious wastes that can occur, because they waste in due time every opportunity that arises for trade in commodities, and finally reduce finance, trade, commerce, industry, agriculture, and transport, in co-operation with *lack* of variety amongst the commodities, to general bankruptcy. The wastes due to variety in standards of value are colossal. The wastes due to variety in all other commodities are nil, for variety is the economic life of commodities.

Under the plan the small man and groups of small men will only be able to obtain small credit. No lower, of course, than £200. But the small employer of a few men will in the end most probably be the salvation of the large organizations. By being the individual adapter of commodities to the wants of buyers outside standardization, he will, in number and variety alone, be the safeguard of those who desire to be big business people. These big business people can carry standardization to its natural limits in every community.

money and credit based upon 40 per cent. of gold, including foreign paper, and taking from us gold of 100 per cent. standard eleven-twelfths fine to the same nominal amount. The trade of any country which parts with gold at that rate of disadvantage (over 60 per cent.) is not likely to continue when, whether we like it or not, gold is and must be the basis on which the exchange of gold and all other commodities has eventually to take place.

Great Britain and America have needed a Newton all through the last score of years. France has one hidden away somewhere, but one who is not so generous to France or to mankind as a Newton of science as well as money and credit would have been. Excessive selfishness often waits too long.

It was the coin of the weight and fineness of gold dictated in 1717 by Sir Isaac Newton which was adopted as the sovereign when Great Britain recognized the wisdom of accepting the gold standard as the legal standard in 1816.

Gold is becoming harder to get and more difficult to keep. Meanwhile, with hundreds of millions of so-called paper money and thousands of millions of paper credit based upon it, chaos in trade is creeping steadily on and hollow echoes of default are whispered in the private sanctums of great businesses.

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A COMMENT ON
THE ECONOMICS OF THE BIBLE

IN support of my unusual statement in the Bibliography regarding the Bible, I make the following observations:—

The abuse of the economics of the Old Testament is indicated in Genesis, chapter 47, verses 14–20 inclusive, where we read:—

"And Joseph gathered up all the money that was found in the land of Egypt, and in the land of Canaan, for the corn which they bought; and Joseph brought the money into Pharaoh's house.

And when money failed in the land of Egypt, and in the land of Canaan, all the Egyptians came unto Joseph, and said, Give us bread: for why should we die in thy presence? for the money faileth.

And Joseph said, Give your cattle; and I will give you for your cattle, if money fail.

And they brought their cattle unto Joseph; and Joseph gave them bread in exchange for horses, and for the flocks, and for the cattle of the herds, and for the asses: and he fed them with bread for all their cattle for that year.

When that year was ended, they came unto him the second year, and said unto him, We will not hide it from my lord how that our money is spent; my lord also hath our herds of cattle; there is not ought left in the sight of my lord, but our bodies, and our lands:

Wherefore shall we die before thine eyes, both we and our land? buy us and our land for bread, and we and our land will be servants unto Pharaoh: and give us seed, that we may live, and not die, that the land be not desolate.

And Joseph bought all the land of Egypt for Pharaoh; for the Egyptians sold every man his field, because the famine prevailed over them: so the land became Pharaoh's."

It is seen here that the people for whose benefit the warning of coming plenty to be succeeded by scarcity—a warning contained in Pharaoh's twofold dream as interpreted by Joseph—was used, not to benefit those people, but to deprive them of their money, their cattle, their lands and their liberty.

The principles underlying this policy are in operation to-day, except that the accumulated misuses of non-productive credit

in more modern times is tending not only to destroy the victims but aggressors also.

It was a redeeming feature in the character of Joseph that he did not rob his father and his brethren, but placed their money back in the sacks of corn with which he served them. By this one act he saved at least his own people.

In the Gospel according to St. Luke, chapter 9, verses 12–17 inclusive, we read:—

> "And when the day began to wear away, then came the twelve, and said unto him, Send the multitude away, that they may go into the towns and country round about, and lodge and get victuals: for we are here in a desert place.
>
> But he said unto them, Give ye them to eat. And they said, We have no more but five loaves and two fishes; except we should go and buy meat for all this people.
>
> For they were about five thousand men. And he said to his disciples, Make them sit down by fifties in a company.
>
> And they did so, and made them all sit down.
>
> Then he took the five loaves and the two fishes, and looking up to heaven, he blessed them, and brake, and gave to the disciples to set before the multitude.
>
> And they did eat, and were all filled: and there was taken up of fragments that remained to them twelve baskets."

This quotation indicates a belief that in some productive or reproductive way, five loaves and two fishes can suffice as a basis for the feeding of five thousand men, besides women and children. Moreover, the feeding costs the people nothing and those who distributed the food gained in the end more food than that with which they began the distribution.

It is such a productivity and abundance that the interest-free, Government-guaranteed national credit postulated in my plan would ensure. The results would justify the injunction of the Nazarene as to the power of "faith as a grain of mustard seed."

Supreme knowledge of corpuscular affinities, applied with the speed of light, could work the miracle of the loaves and fishes. The productivity which could result from a small base

through Credit persistently applied to that end would be sufficiently miraculous. It would far exceed the productivity of compound interest, without diminishing the exchangeability of the product.

Turn now to the Gospel according to St. Matthew, chapter 17, verses 24–27 inclusive, and read:—

"And when they were come to Capernaum, they that received tribute money came to Peter, and said, Doth not your master pay tribute?

He saith, Yes. And when he was come into the house, Jesus prevented him, saying, What thinkest thou, Simon? of whom do the kings of the earth take custom or tribute? of their own children or of strangers?

Peter saith unto him, Of strangers. Jesus saith unto him, Then are the children free.

Notwithstanding, lest we should offend them, go thou to the sea, and cast an hook, and take up the fish that first cometh up; and when thou hast opened his mouth, thou shalt find a piece of money; that take, and give unto them for me and thee."

The economic teaching here prescribed that the fisherman, working with his tackle, should obtain, not only fish, but enough money with the fish (i.e. with no loss of his product but only of his labour), to pay the taxes expected of him.

The interest-free, Government-guaranteed national credit for productive purposes, to be provided under the money and credit plan proposed in this volume, would place the producer, or fisherman, in the position of utilizing his product for the maintenance of his family and the payment of his taxes and thus leave, not only the big, but the little, children in comfortable circumstances.

In Great Britain to-day, through the abuses of such economics, every child is born with a millstone of National Debt around its neck, whilst its parents are on the verge of bankruptcy, by reason of taxation which takes from them nearly everything they can earn or borrow.

In the Parable of the Talents (St. Matthew, chapter 25, verses 14–27 inclusive) productiveness is again proved to be the key of the economics of Christ:—

"For the kingdom of heaven is as a man travelling into a far country, who called his own servants, and delivered unto them his goods.

And unto one he gave five talents, to another two, and to another one; to every man according to his several ability; and straightway took his journey.

Then he that had received the five talents went and traded with the same, and made them other five talents.

And likewise he that had received two, he also gained other two.

But he that had received one went and digged in the earth, and hid his lord's money.

After a long time the lord of those servants cometh, and reckoneth with them.

And so he that had received five talents came and brought other five talents, saying, Lord thou deliveredst unto me five talents: behold, I have gained beside them five talents more.

His lord said unto him, Well done, thou good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things: enter thou into the joy of thy lord.

He also that had received two talents came and said, Lord, thou deliveredst unto me two talents; behold, I have gained two other talents beside them.

His lord said unto him, Well done, good and faithful servant; thou hast been faithful over a few things, I will make thee ruler over many things; enter thou into the joy of thy lord.

Then he which had received the one talent came and said, Lord, I knew thee that thou art an hard man, reaping where thou hast not sown, and gathering where thou hast not strawed:

And I was afraid, and went and hid thy talent in the earth: lo, there thou hast that is thine.

His lord answered and said unto him, Thou wicked and slothful servant, thou knewest that I reap where I sowed not, and gather where I have not strawed.

Thou oughtest therefore to have put my money to the exchangers, and then at my coming I should have received mine own with usury."

The money, whether of gold or of silver, was a certain weight of precious metal which was exchanged for products, and these products exchanged for money until the money was doubled. It is made clear in the narrative that the least desirable form of utilizing the money—seeing that it is mentioned last—was to put it out to usury, only less reprehensible than burying it in the ground.

The use of the money was given free to those who could use it as productive capital. The money itself was a product of due weight and quality.

Interest-free, Government-guaranteed national credit, to be used for productive purposes, would suffice *instead of money* to-day, provided that sound standard money regulated the prices and commodities which would be affected by this productive credit.

The desperate economic state of nations to-day bears unmistakable evidence that by enforcing the economics of the Old Testament mankind has been brought to conditions involving that appalling lack of individual means to pay, which both follows limitations in the production of new and varied wealth and destroys demand for existing forms of wealth.

This situation can be cleared up only by the economics of the New Testament, which would promote abundance of individual means to pay by establishing ample production of new and varied wealth as diversified as human wants. In the process they would furnish ample and effective demand for all forms of wealth, old or new. Trade almost beyond belief would move again. Belief that *something* as intangible as belief itself is capable of effecting this change, from the moment this belief is recognized and acted upon, is all that is necessary. This "something" is credit used productively and abundantly. Credit is derived from belief: Credo—I believe. This credit can be made to work miracles in economics. By its use the economically blind would see; the economically lame would walk; the economically leprous would be cleansed; the economically deaf would hear; the economically dead would be raised and the economically poor would have good tidings preached to them; indeed, one is tempted—even at the risk of a charge of heterodoxy—to postulate that, two thousand years ago, was preached a *material* as well as a *spiritual* well-being, each surely being a corollary of the other.

STATEMENT OF EVIDENCE

TENDERED TO

THE COMMITTEE OF FINANCE AND INDUSTRY

[*The following Statement of Evidence tendered by me to the (Macmillan) Committee of Finance and Industry in February* 1930 *is included in this book for the reason that, although it was presented long ago, subsequent events have proved it to be overwhelmingly true.*—O. S.]

THE economic activities of a modern State consist of the production, distribution, exchange, and consumption of goods and services to satisfy the present and future wants of the people. These activities depend almost entirely upon, and are controlled, by banking, finance, and credit.

The control of economic activities includes the power to promote, restrict, stop, or change such activities, and therefore to promote, restrict, stop, or change, demand and supply of goods and services on which the life and character of society depend.

The *promotion* of economic activities in general, unrestricted except as they mutually restrict one another, leads to general remunerative employment, which is only another name for prosperity.

The *restriction* of economic activities has restrictive effects of a cumulative character upon employment.

The *changing* of economic activities must also change demand and supply in relation to them.

The *stoppage* of economic activities is economic collapse. Restriction of some economic activities and stoppage of others cause unemployment, borrowing, bankruptcy, dependence on charity, and social dissolution.

Banking, finance, and financial credit properly used are therefore the instruments of prosperity. Improperly used, they are the instruments by which prosperity can be first impeded and then destroyed.

Money and credit are the primary factors in banking, finance, and credit. The two factors are quite distinct. Unfortunately, they are nearly always treated as one and the same thing.

Credit in goods and services may be termed commodity credit. This is sound in production and unsound in consumption.

Exchange credit is financial credit applied to buy, or discount, debts in the form of bills of exchange for value received. This has given rise to *the fallacy that all debts are wealth*, because they are legal entities which can be bought, sold, and exchanged, in the money or credit or discount market and the Stock Exchanges.

Debts are now created for which value has not been received, but for which it is hoped to obtain financial credit. This credit is then used as purchasing power of realities in commodity or service form, or it is used as loans to earn a marginal rate of profit-interest.

So-called "clean" bills, including bank bills, divested of any substantial evidence of the real wealth implied in bills of lading, warehouse receipts, and first charge securities when these are attached to bills, are regarded as far superior to mere trade bills.

The fallacy that debts are wealth, because they can be bought and sold, has given rise to the belief that our National Debt is wealth, although to the full extent of the annual cost of it, it hinders the production of wealth for sale or exchange at prices which will cover replacement costs.

This fallacy has developed into the fatal one of making debts that can never be paid, and which are themselves the reason why they can never be paid, into legal tender money, in the form of Bank of England promises to pay, divested in

each of 260,000,000 cases of the piece of gold that ought to be attached to it. Every other trick of finance is capable of being sustained except this one. Debts cannot be made into gold standard legal tender money, and gold standard legal tender money is necessary to our economic life.

Unless this wrong is righted very soon, British credit will collapse, and the social order will change. It is no exaggeration to say that the Constitution from the throne downwards has been placed by this fallacy in the gravest danger.

Credit-money is a contradiction in terms. Credit is a true substitute for money only when money can be substituted for it—i.e. when they are really interchangeable.

We therefore deceive ourselves in treating recent currency notes or present Bank of England promises to pay as money.

They are not money or true substitutes for money, however effectually we may force them into circulation by legal enactment. Money can be legally recognized but mere law cannot create it. These notes are alleged substitutes for money that has no existence. Paper money fully backed by gold is a true substitute for money, because gold is money by human custom from the earliest times and the one is then truly convertible into the other.

Modern banking consists of the sale and transfer of credit in financial form.

Finance consists of the provision of financial media of exchange in the form of banking credits, accepted bills, promises to pay money, and so forth.

Credit in financial form is an abstraction, *the substance* of which *resides in the possessions of others*. If no such substance exists, the credit is wholly unsound.

Credit in commodity form is extended when commodities are sold on terms of future payment.

The financial organization gains time-benefits in the transfer of commodities through payment by cheque even in cash transactions.

Commodities are credit in commodity form until the cheques taken in payment for them have been cleared.

Transactions by clearing cheques—i.e. by cheques not clearable by the same bank within itself, but clearable through the Clearing Houses, total about £40,000,000,000 per annum. One day's interest on this total at 5 per cent is roughly five and a half million pounds.

That banking can be thus profitable almost in spite of itself is not an objection. In this case it renders a valuable service. I see no reason why the Clearing House figures should not rise by ten times that sum—i.e. to £400,000,000,000 if trade were allowed the freedom of productive finance commensurate with our National and Imperial capacity for world trade.

In connection with the cheque currency I wish to refer to the Bank Act of 1844. In this reference I accept the definition of most authorities that a cheque is a bill of exchange.

The Bank Act of 1844 was intended to promote the cheque system and by means of it to avoid infraction of the gold standard of legal tender money. Opponents of the Bank Act of 1844 have not understood this. That is apparently the reason they have discouraged the cheque system by a higher stamp duty and a dearer postal service, and at the same time claimed that the Act was too restrictive.

The proof that Sir Robert Peel intended the Act to extend the cheque system appears in the following extract from the evidence given before the Currency Committee of 1840. (Examining a President of a Chamber of Commerce):—

QUESTION 80: SIR R. PEEL. What does a Bank of England note profess upon the face of it: is it not "I promise to pay"?

ANSWER: Precisely so.

QUESTION 81: Is not that evidence of a debt?

ANSWER: Certainly, but it is legal tender.

QUESTION 82: Supposing a law were passed permitting a gold

circulation to continue, and prohibiting the use of notes by the Bank, do you not think the measure which traders would resort to would be to supply the deficiency by bills of exchange?

ANSWER: It is probable: it might be so.

QUESTION 83: Would not they answer the purposes of currency?

ANSWER: Bills of exchange do not perform the functions of currency, but they are instruments by which commodities are exchanged equally with every other mode of credit: but requiring money for their discharge.

QUESTION 84: Though there is a difference in the nature of the transactions between the issue of a note payable on demand, and the passing of a bill of exchange, is there any substantial difference in their sensible effect on the currency of the country?

ANSWER: I do not think that bills of exchange (or cheques) affect the currency, though the currency has a very important influence on bills of exchange.

The foregoing shows the intention of Sir Robert Peel to promote the bills of exchange or cheque system by means of the Act of 1844, then in contemplation.

Sir Robert Peel rightly concluded that cheques could perform the functions of a medium of exchange, but not a standard of value.

The witness rightly concluded that cheques or bills of exchange did not affect legal tender currency (that being the standard of value) though legal tender currency (as the standard of value) had a very important influence on cheques or bills of exchange.

The inference to be drawn from most of the criticisms of the Bank Act since 1914 is either that the Act has been misunderstood or that there has been on foot a plan to ruin the country by financial process.

Credit in service form consists of services rendered prior to

payment. The financial organization is the gainer by this form of credit through the continued use at interest for a day, a week, a month, or longer, of funds representing postponed payment of fees, salaries, and wages to millions of the people.

Financial organization of society is nevertheless sound, provided that the foundations of that organization are solid, of the right kind, are well constructed, and that the organization is permitted to function equitably.

In alleging the financial organization of our society I claim that in an advanced stage of civilization any sort of political Constitution, monarchist or otherwise, must organize itself financially, because finance has so much to do with power in the day-to-day affairs of practical life.

British Credit is a term frequently heard. It is common form to say that it is the best credit in the world. (See Sub-appendix A.)

What is British credit? Is it the power of the British Government to borrow? If so, the power to borrow what? Money, banking credit, commodities or services?

What is British financial credit? Is it power to borrow financial credit owned privately? If so, has the British Government no financial credit, except as it may levy taxes? We read much of a gold standard which is a perversion of the true purposes of the gold standard into a gold reserve of credit and also we read of the creation of credit by the Bank of England for the Treasury. However, what is it but national credit—Government credit—the people's credit, which can be created by being written up against the Treasury guarantee? This is written up at the Bank of England into Government deposits. The process invariably reduces the reserve ratio of the Bank.

The gold reserve standard of credit is therefore reduced by credit creation. But credit creation is an essential part of our banking system, and all banks create credit by lending deposits which come to them in deposits arising from loans.

As loans must be either productive or non-productive, all such loans, when they reach the banks as deposits through being expended unproductively, are pure credit inflation. Credit inflation is therefore a material part of our present banking system and to that extent our banking system is unsound. Be that as it may, however, it is ultimately national credit which constitutes the book-entry credits which banks in general create, for the public would have to support them did the need arise. A reckless use of the power to create book-entry credits was made both during and after the war.

In *British Finance*, 1914–21, it is stated on page 399 that:—

> "When the Exchequer receipts from taxation and loans from the public were insufficient to meet Government expenditure, recourse was made to the banks to fill the gap by book-entry credits. For this purpose between £500,000,000 and £600,000,000 was credited to the Government by the banks."

And later:—

> "Manufacturers and traders informed the banks, in particular after the Armistice, that on account of the great rise in prices, they required considerably more credit to run their businesses. This was true, and the greater part of such requests were conceded by the banks by creating further book-entries of credit to the extent of between £400,000,000 and £500,000,000 up to the end of 1919, or of between £600,000,000 and £700,000,000 up to the end of 1920. And so the snowball of inflation rolled on and expanded."

This proves the power to create credit, though it illustrates the abuse of that power and inadequate knowledge of the true nature of credit. This was all consumption credit and therefore pure inflation. It did not add to productive machinery, it merely placed a heavy further charge upon that which existed and otherwise added to the cost of running it.

It did not remove such charges and add to the facilities for redeeming credit and providing products to counteract inflation. Though the essence of credit is that it shall be redeemed, this process, on the contrary, increased credit and reduced the power to redeem it. One of the postulates of the plan I have to submit is that the creation of true productive credit, interest-free, is necessary now as the only way in which to repair the mischief.

The Government admits the practicability of national credit in pecuniary form whenever means are necessary to support the banks. In an emergency the national credit which is denied as a financial resource for the nation, must be turned into financial form, and drawn upon in order to preserve the financial system. National credit as currency notes, or book-entries, then become "means to pay" the obligations of a system which denies national credit as a source of funds to be lent free of interest to the people although the credit is their own.

Ultimately, real, as distinct from promissory, "means to pay," without becoming bankrupt, mean means to produce wealth in products which comprise real payment. There is in this country an enormous demand for real means to pay vast obligations. They can be provided only by enormously increasing the production of wealth.

The Government, in paying interest for the credit written up against its securities, pays interest for what belongs to the nation it represents, pays the Bank of England for what does not belong to the Bank, forgoes the claim of the nation to any credit as a nation, sacrifices the idea of national credit, and mulcts the people in heavy interest charges, on the false assumption that there can be no financial credit except private financial credit.

But the time has come when this abstraction called credit must in its national sense be invoked and financially applied in order to get the whole people—not mere bankers and

financiers—out of their economic difficulties. It must be made into means to pay for fixed productive capital which will yield products out of the credit thus newly created that credit already outstanding can by its help be truly redeemed. It must be created to pay for the means to raise the production of wealth into abundance in quantity, and in diversity also, and at a cost adequate to the national needs, including means of distribution which will direct the wealth to where the needs are felt.

The general welfare would be securely established by such credit—including the welfare of the financial system itself, although the present obligations of this system are hundreds of times greater than its capacity to meet them. The capacity to meet these obligations resides where the national credit belongs—i.e. with the nation as a whole. This national credit, to be appropriately utilized, must of necessity be placed, for productive purposes, at the disposal of the producers of real wealth. The process in itself of paying our debts would then constitute prosperity of the soundest character.

Walter Bagehot says in *Lombard Street*, page 152:—

> "As far as prosperity is based on a greater quantity of production, and that of the right articles—as far as it is based on the increased rapidity with which commodities of every kind reach those who want them—its basis is good."

. . . . .

All financial credit is expressed in terms of money.

It is said to be difficult to realize the intangible, invisible thing called credit and to speak of it as applied on a great scale as a potent remedy for our grave economic situation. Nevertheless, this difficulty—if it is a difficulty—must be overcome.

I contend that the idea is easy to comprehend. Promises are abstract, intangible, invisible things like credit. Promises, however, made by persons unable to fulfil them are real enough

to cause much trouble in society, and the practice of making such promises is discountenanced by all honourable people.

The worst thing that can happen to the financial organization of society is the making of promises in financial form which the promisor knows he cannot fulfil.

I produce a Bank of England one-pound note. It says:—

"I promise to pay the bearer on demand the sum of one pound." That is a promise by the Bank of England through its Chief Cashier. There are 260,000,000 of these promises in existence which the Bank of England could not fulfil.

For what is a pound? It is—or was—123·27 grains of standard gold. The Bank of England is, therefore, by 260,000,000 times that amount of gold, short of the power to fulfil its direct promises. Under securities tantamount to a note of hand from a Treasury official it has drawn upon national credit in the financial form of a promise to pay what it has not got.

Mr. Hartley Withers writes in *Bankers and Credit* that in the old days under the gold standard the object of the Bank Court was to preserve its gold reserve with a view to the convertibility of its notes.

I submit that that is the one necessary purpose of a gold reserve, always provided that the said notes are the national legal tender and that the term Gold Standard has no other meaning in relation to paper money, and no other meaning in relation to gold standard legal tender coin than a weight of the metal of 123·27 grains eleven-twelfths fine.

I submit that until the Bank of England is placed in the position of being able to honour its promises, to the full, our economic situation will go from bad to worse. Bogus promises have taken the place of real money as the basis of our trade, commerce, and finance. Bagehot says: "Money is economic power." Therefore, when we abdicated from the throne of the best money in the world—standard gold money, eleven-twelfths fine—we abdicated from economic power. Both common honesty and economic necessity demand that the

Bank's holding of gold shall be increased to equivalence with its promises, or that its promises shall be decreased to equivalence with the gold it holds.

The Bank of England, which is regarded as a national institution, cannot continue on a basis of systematic pilfering from the people. National credit does not rest on gold but on the possessions of the people and their capacity to produce wealth. The national credit appropriated by the Bank in connection with the notes is a financial form of the commodities and services of the people.

What the Bank is really promising to pay on each note is a pound's worth of somebody else's goods and services to me, and of my goods and services to somebody else.

The charge of pilfering is justified by the fact that the fulfilment of these promises to pay is a constant loan forced from the people, a loan on which no interest is paid to the people, and one which is therefore interest-free to the Bank. To pile injury upon injury, the financial system, which the Bank tries to foster through its high discount rate, drives the bulk of the people into the hands of money-lenders, to such an extent that interest has to be paid by the people to possess the notes, and interest is contained in the prices of everything for which the people can exchange the notes.

The misappropriation of other people's possessions is accomplished under an enactment designed solely in the interests of the financial side, as opposed to the goods and services side, of economic activities. It involves the unjust assumption that those who deal in banking, finance, and credit, have the right, as well as the power, to control all goods and services.

This is at the root of our economic difficulties to-day. It is an application on a gigantic scale of an abuse that began when the goldsmiths as bankers centuries ago professed to lend gold which they did not possess, by lending their credit, as gold-holders, as if the credit were gold; and this abuse

has now gone beyond all reasonable bounds by the use of even less well-founded credit as if it were a legal and legitimate claim to other people's goods and services. One effect of this financial system is to compel the people to raise loans at interest in order to enable them to live and operate their own property as means to live.

Borrowing and lending have become the national passports to business. Nobody can live without one or the other except on charity. Bagehot said:—

> "In modern English business, owing to the certainty of obtaining loans on discount of bills, or otherwise, at a moderate rate of interest, there is a steady bounty of trading with borrowed capital, and a constant discouragement to confine yourself solely, or mainly, to your own capital."

That was said fifty-six years ago. Since then the practice has been stealthily forced until money-lending itself has become the only kind of trading that is seriously heeded, although commodity and service trading, on a greater scale than ever before, has become necessary to our economic—including our financial—salvation.

As a result usurious conditions worse than those in ancient Rome have been created. (See Conant's *Principles of Money and Banking*, vol. ii, page 125.) It will be seen that these exactions led to massacres of as many as fifty thousand Romans; that Brutus, Verres, Cato, and Pompey exacted 24 to 40 per cent., and that like conditions had been created by the financiers in the pre-Revolutionary period in France. By pyramiding credit upon credit, upon our gold reserve of real money, we are exacting at least 70 per cent. per annum, for example, as interest on that reserve. These terms are far more usurious than any that past history has to record.

It will be seen week by week in the Bank Return that the

ratio of gold to notes is about 33⅔ per cent. The notes in circulation from the Issue Department are £355,000,000. They get into circulation in the process of issuing loans.

Assume that they are in circulation on a 5 per cent. rate of interest, and that the gold reserve against them is £130,516,000: 5 per cent. on £355,000,000 equals £17,750,000. £17,750,000 is over 13½ per cent. on £130,516,000.

But £58,000,000 of Bank of England credit (not notes) held at the Bank of England by the other banks, serves as cash reserve to about one-eleventh part of the loans by banks at probably 6 per cent.—i.e. 6 per cent. on £638,000,000. Six per cent. on this sum amounts to £38,280,000, which is over 29 per cent. on £130,516,000 of gold. This makes 42½ per cent. interest earned on the gold at the Bank.

The item on the Bank Return named "Other Deposits" is no doubt similarly used as a small ratio of a great amount of credit. It is reasonable to suppose so, seeing that the deposits cannot be kept there for the amount of interest paid by the Bank. That being so, a further 6 per cent. must be calculated on eleven times £38,500,000. This is 6 per cent. on £423,500,000 and amounts to £25,410,000.

Now £25,410,000 is over 19 per cent. on £130,516,000 of gold. Added to 42½ per cent. this further 19 per cent. makes 61½ per cent. interest earned on the gold at the Bank. Amongst public deposits in the accounts of the Bank, as Bagehot in *Lombard Street*, page 307, explains, are contained also other accounts and "particularly that of the Secretary for India in Council, the laws of which must be different and are quite unknown. The Secretary for India is a large lender on its account. If anyone proposed to give such power to the Chancellor of the Exchequer, there would be great fear and outcry."

I have no means of knowing the amount of interest on the gold reserve which the interest derived from the loans by the Secretary for India represents, but I suggest that the time has

arrived for great fear and an outcry if productive lending power free of interest is not given to the Chancellor of the Exchequer.

Taking into consideration that, except in "exceptional circumstances arising out of the war" (*vide Central Banks*, by Kisch and Elkin, published with a foreword by the present Governor of the Bank of England), the Bank of England pays no interest on its deposits, and therefore receives them interest-free, and taking into consideration also that the Bank is immune from taxation, I assume these privileges and the Bank's own profits to be worth approximately £11,000,000, or 8½ per cent., making a total of 70 per cent. interest earned per annum on the gold reserve against the £355,000,000 of notes in circulation.

This reserve of gold is, of course, the ultimate reserve of thousands of millions of pounds of outstanding financial credit more than I have mentioned. It is, in fact, the reserve of all our documentary credit in this country and the acceptance obligations undertaken by us on behalf of foreign connections. The interest earned on this gigantic credit structure would represent many hundreds per cent. on its keystone in the Bank's reserve of gold.

But disaster is ahead. This keystone is being pulled away. By refusing to modify this exacting system we are losing even this slender reserve. It is said that France alone has claims to £120,000,000 payable in gold. That is nearly the whole of it. Beyond doubt we have no power to hold the gold against those with rightful claims to it, and we dare not suspend payment because to do so would stop our imports and starve the nation. We have brought about this position by encouraging the idea that we can pay for our imports in gold under the so-called Gold Standard Act of 1925 instead of doing everything to ensure our not being called upon to pay gold by making other exports more desirable.

Foreign nations will gladly sell to us whilst our index of

prices of the cost of living is 160 instead of 100 and they are privileged to regard that 160 as gold, but they will not buy our goods from us on our basis of prices of 160 instead of 100. Consequently, our goods and service exports are decreasing and the demands for our gold increasing.

Finally, this gold reserve, which, as the basis of financial credit instead of the basis of money, is thus being used to ruin the nation, really belongs to the nation from whom it was taken in exchange for paper to the extent of about £120,000,000 during the early days of the war.

That honesty is the best policy was never better exemplified than in the situation which this dishonest system has brought about. Before it is too late financiers ought to realize that the country's coming deadlock will not only mean the ruin of the people but the ruin of British finance also.

I ask them to try to realize that the plan I submit will remedy this situation. If the plan involves a few changes and a little inconvenience, that fact surely is hardly worth a thought in such grave circumstances. The plan, if honestly interpreted, will be proved to be one which will benefit all and injure none.

In finance on the one hand and production and distribution on the other, neither side should be in control. Both sides should be free. They should operate reciprocally in an economic balance. No economic balance can be established, however, on a basis of paper money inconvertible to natives, convertible to foreigners, and ruthlessly divorced from gold in legitimate trade in favour of moneylending for interest.

The complete gold standard requires 100 per cent. of standard gold behind our legal tender money if such money is paper. We have less than 40 per cent. The debasement is consequently at least 60 per cent. The debasement of the money which is our national standard of value is therefore 60 per cent. to the native, whilst under the Gold Standard Act of

1925 we think we can give the foreigner gold at the rate of 100 per cent. instead of 40 per cent.

The Board of Trade index figure to the cost of living sometimes rises above but never falls below 160. This figure though of no particular interest to individuals has a general significance. It is arrived at by careful attention to every aspect of the problem that is reasonably helpful in keeping the figure low. Nevertheless, the figure ranges around this figure.

The reason is that 160 in our paper money is the equivalent of 100 in gold standard money. Until our 40 per cent. gold standard money is raised to 100 per cent. that index figure will remain as much above par of gold as our money is below par of gold.

The economic disequilibrium that we have established is already out of balance by 100 as compared with 160, and it is gradually being driven—through credit inflation and gold deflation—further away from the centre of economic gravity to a disequilibrium of 40 as compared with 160.

This is taking place in the cost of living as a result of our conditions of trying to trade with this handicap plus the heaviest taxation in the world. Economic collapse will come before these limits can be reached.

I would refer to Table 11 on page 57 of a book entitled *The First Year of the Gold Standard*, by T. E. Gregory.

In that table the British cost of living index is set down as identical with the British gold cost of living at 168. Professor Bowley's wages index and gold wages are both stated at the figure of 180. Real wages are given as 106.

My interpretation of these figures is that wages, salaries, and fees nominally 180, were really 106, in the realities of cost of living (goods, services, etc.) which they bought for 180; that the sterling cost of living stood for goods and services priced in our debased currency; that the equality of this figure with the stated gold cost of living was due to our legal obliga-

tion to exchange our debased paper into gold in favour of foreigners; and that, nevertheless, it brought us a maximum of only 106 in goods and services for every 168 in gold which we paid to them. Our gold is gladly taken from us on the basis of 168 for 106. But our goods are refused on the basis of 106 quoted at 168. Hence our export trade is declining. (See Sub-appendix E., Gresham's Law.)

In crystallizing a difference between the external and the internal value of our currency in a country like ours, where all internal economic activities are dependent on external relations, we have given free play to defects in trading far worse than those which arise from a double standard of value in silver and gold bimetallism, in which the inferior currency or its equivalent is always paid to traders, and the superior currency or its equivalent is always exacted in payments from traders.

This basis of trading and living established by our so-called gold standard it is the function of the *true* gold standard to avoid.

In the past the goldsmiths, as John Locke, in his letters to Edward Clarke, tells us, organized runs on the Bank of England. That, no doubt, caused greater freedom of credit to be given to the Bank. Be that as it may, however, runs are being organized on the Bank of England to-day, to obtain its gold and to intercept gold on the way to it. The paper £ invites this. Though we do not realize that internal relations call equally for convertibility, we do recognize that international relations compel us to make this paper convertible into gold for export. We have made it so by a legal provision that 1,700 of these paper £'s are convertible into 400 ounces of bar gold for export.

In internal trade relations this provision does not apply. If it did, all the gold would disappear from the Bank into private hands—as foreign convertibility will make it disappear into foreign hands—because gold has not only a wider range of

circulation than paper money, but it remains valuable when paper money may have become quite worthless.

The prevention of the internal conversion of our paper money into gold is really a recognition of the fact that the paper is not equal to the gold, and that therefore legal enactment has not made the paper as good as gold. This conforms to the fact that no human Government has ever been able to make one grain of gold into two grains of gold or one grain of paper into one grain of gold. Clipping, debasement, and usury have always failed in monetary policy.

To-day, the privilege of conversion for export given to foreigners enables foreigners to hoard our gold against their own insecure paper money. This is an extra inducement to them to take our gold away—that gold which is the keystone of our whole financial structure.

In connection with gold the Bank raises its discount rate, and consequently the rate of interest on financial loans, to the injury of all our trade, except as trade is regarded, quite wrongly, as the lending of financial credit. Some writers say that the Bank does this, not in connection with the convertibility of its notes, but in order to try to stop the drain of gold taken to support credits to be used as loans elsewhere. It desires to attract and maintain credits to be used as loans at interest here. It thus considers only the interests of lenders and control of the total of credits that can be lent. It systematically assumes the British to consist of people who must work chiefly to pay interest on loans.

The raising of the Bank Rate has become ineffective for the attraction of gold. Of the Bank's gold stocks *The Times*, in its City Notes, said, on December 5th:—

> "The total is still more than £20,000,000 below the figure at the beginning of the year. . . . It would be unwise to act on the assumption that our gold stocks will be restored whatever happens to money rates."

This effect of nearly a year of jugglery with the Bank Rate, in raising it from 4½ per cent. to 5½ per cent., then to 6½ per cent.; then reducing it to 6 per cent., then to 5½ per cent., and finally to 5 per cent., proves that, subject to slight ebbing and flowing, we have, at most, six years to go before the Bank's gold stocks will be reduced to nil. The attempt in effect to merge the Central Banks in a Bank of International Settlements and to merge several inadequate gold reserves into a basis for still greater responsibilities will expedite the economic collapse in this country. This must be so by reason of our taxation being the heaviest in the world.

During the period from January to December, France with a low Bank Rate and a huge stock of gold continued to attract gold, and it follows that the more the gold France obtains the more gold she will be able to attract, until we have re-established our legal tender money on a basis of gold in full. Persons connected with French financial houses and institutions must know this to be true. Some of these must be profiting by the knowledge of how to take our gold. It is to be hoped that they had nothing to do with the legislation by which the exodus of gold was facilitated.

This exodus of gold is proof that our paper, which foreign holders are so eager to exchange for gold, cannot be equal to gold, and that we must lose all our gold unless we make our paper equal to gold. The run is being made upon the Bank's gold without of necessity its being an organized run. It occurs in what is now the ordinary course of trade.

Traders sell to us at paper prices and then exchange the paper into gold. They do not buy from us at paper prices, because these prices, seeing that they include not only debasement of the currency but abnormal interest, rates and taxes, would provide them with far less goods and services than the gold obtainable for the paper can purchase for them elsewhere.

. . . . .

We must revert to gold money because gold money is essential. Gold has been the standard of value from early Biblical times. Gold was adopted as the standard of value in Rome by Cæsar. (See Conant on *The Principles of Money and Banking*.)

Gold standard money can pass by weight. Gold standard legal tender money should be expected to pass in paper only in the form of bona-fide gold certificates.

The name of the weight of 123·27 grains of standard gold —one pound sterling—is an old name, once applied to an actual weight of pure silver. It was found convenient to retain the name when silver gave place to gold as the standard of money, and a weight of 123·27 grains of gold eleven-twelfths fine was substituted for one pound of silver.

The material fact is that the name of the money is the name of a weight of metal. Every unit of money should be that metal, either in the form of a coin or of paper naming that weight of metal as actually stored against it in the safe of the issuing authority.

The promise of the Bank of England to pay what it has not got is a legal fiction. While this lasts all the people who can get gold for our paper will take it. We claim to keep a partial reserve of gold to minimize the heinous character of that fiction, and we wish to maintain, with the same gold, a gold reserve standard of banking credit, yet we pursue a policy which must deprive us of every grain of gold that comes our way.

The fact cannot be too strongly emphasized that the neglect of the real gold standard in legal tender money renders us incapable of retaining sufficient gold for an adequate gold reserve standard of banking credit. We are sitting on the branch that we are cutting away. Disaster is inevitable.

We abandoned the gold standard of value as represented by gold legal tender money. We thereby abondoned the true gold standard. We called something else by the name of the gold standard which we thus perverted from its purpose. We

confused a gold reserve standard of credit with the gold standard of money. We changed our gold money into credit money. We treated the credit money as if it were gold. And then we made the credit money into a reserve banking credit. It has been a rake's progress. It matters not that other countries have done the same. They had not so far to fall from grace. Moreover, those countries have not our unique handicap of having to carry, as a drag on our competitive power, the heaviest taxation in the world.

As a result we have lost the power to preserve the gold that would enable us to maintain any gold reserve standard, whether of gold paper money or of banking credit, and we have ensured demand for the export of more and more gold and less and less goods and services in payment of our liabilities to other countries.

This process of increasing gold shipments and diminishing export trade will bleed the country to economic death. Internally and internationally our trade is doomed. Ultimately half the population must starve. It is only a matter of time. We are heading for a condition in which all our wealth will be paper credit, resting on nothing of exchangeable value.

Apart from the drain of our American Debt, our 5 per cent. War Loan is held by foreigners to the extent of hundreds of millions of pounds. This loan is redeemable from now on. As the Government attempts to redeem it, foreigners will take our gold in settlement, or we shall default. Our only alternative is to make our goods and services capable of being supplied on a very different basis from that on which we can offer them at present. The redemption in gold of the amount of this loan held abroad is really impossible to us. On the other hand, it would materially aid our export trade and relative industries if we could so rearrange our production of wealth as to effect the redemption in commodities and services made more acceptable than gold.

If our paper money were really equal to gold, there would

be no point in foreigners taking the gold away and refusing to take our paper for the purchase of our goods and services instead of gold.

It would follow that our prices would be gold prices. Being in terms of our legal tender, and our legal tender being gold itself, or paper fully covered by gold, our prices would necessarily be gold prices; and, if our goods and services were available on the basis of being equivalents of gold, there would be no point in traders taking our gold instead of our goods and services in liquidation of their claims upon us for goods and services supplied to us.

Gold is the standard of exchangeable value expressed in price of all interchangeable commodities, including gold itself.

Gold prices imply standard gold money which consequently is the only full legal tender of any country on the true gold standard.

Gold money as legal tender can be a medium of exchange incidentally to its being primarily the national standard of value.

Financial credit whether in the form of Bank money, such as notes or deposits or bills, is grossly misused when it is made into legal tender money and thereby constituted the national standard measure of exchangeable value.

Its function as purchasing power is merely that of a medium of exchange. In this capacity it can be an admirable means of organizing production, by bringing together the various agencies of production (land, labour, capital, and managers), and fusing them into a business organization that can turn out products capable of ministering to human wants. It cannot, however, be the standard or measure of the prices at which these agencies are assembled, or at which the products are sold. The standard of reference for prices is money, and only gold standard money is reliable as the standard to which either money or credit must conform in the rates of the exchanges that either can safely effect in either home or foreign trade.

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The financial name of gold units is sound money. The financial name of production units is sound credit. Both must be what they purport to be. Both may be media of exchange. But only gold is independent of opinion, and therefore only gold can be the standard measure of exchangeable value.

By production units I mean assembled agents of production of the same and different goods and services wanted in the same and different quantities, qualities, and positions at the same and different times and places.

The monetary unit of calculation must be real. Its content must be so much definite exchangeable value in the concrete. In the same way, a pint measure must be real. The content in this case is space, instead of solidity, an abstraction instead of a concretion—neither the solidity nor the space can be made into bits of paper. The precise nature must be as inviolable as the precise purpose in each case.

Whatever is valued for quality or measured for quantity in either case may have nothing in common with the units of calculation as such. The changes in the relations of gold to other commodities, commonly termed a rise or fall in the value of gold, have nothing to do with the concrete unit of money calculation.

The changes in the relations to other commodities of the materials of which pint measures are made have nothing to do with the space unit of calculation of a pint. The essential point is the reality and fixity of every unit legalized as a pint measure and of every unit legalized as a monetary unit—in our case a pound.

Forty per cent. of a pint is not a pint. Forty per cent. of a £ is not a £. Every transaction carried out by us with our legal tender in its present state is as fraudulent as every liquid transaction would be with 40 per cent. of a pint treated as a genuine pint. Those who could palm off 40 per cent. of a pint as a full pint would seem to prosper for a time, and they would endeavour to bolster up such a system, but they would

be robbers and the receivers of such short measure would be robbed. Trade cannot be maintained on that fraudulent basis.

Goods and services bought and sold at gold prices are the basis of sound and uninterrupted trade. Control of prices by gold, and not by financiers and finance bills, is the essential of sound world-trade policy. The law of supply and demand in relation to goods and services may decide the quantity of the prices—i.e. whether they are high or low—but not their quality—i.e. the nature of the currency in which the prices are expressed. The introduction of a quality of credit into the currency, in which prices are stated, is debasement and adulteration equal to false weights and measures and fraud. It is the introduction of chaos into trade.

Paper equal to gold is as good as gold, and serves all the purposes of gold, but it must be actually equal to gold, and not made so by a legal fiction. A true paper currency prohibits the confidence trick, which makes paper money, in fact, only as good as an amount of gold that is likely to be called. That is the cash-in-the-till banking principle, which may be sound enough in banking, but is a fatal mistake in reference to legal tender currency.

This currency by virtue of its being legal tender is the standard of value—of gold in other things, and of other things in gold, as well as of other things in other things and gold in gold; and gold being adopted as legal tender, it must be the standard of value by virtue of its own intrinsic character, not by virtue of a legal character foisted upon it. The legal recognition may be the sign—it cannot be the cause—of its character.

I commend to the Committee a careful consideration of *Coins of the Realm*, a book by the first Earl of Liverpool, dealing with the necessity of a single gold standard as against a double standard of gold and silver. Read in the light of to-day, the arguments against a double standard of gold and silver apply

with ten-fold force against a double standard of gold and paper or the single standard of utterly inconvertible paper, towards which we are rapidly progressing. (See Sub-appendix D 1, 2, 3, 4.)

LORD LIVERPOOL AND THE GOLD STANDARD

Paper money can be made worthless by the printing of adequate quantities of it. That was proved by the worthlessness of the vast quantities of marks with which Germany paid off her National Debt. Either Germany printed these marks deliberately, as an act of sharp practice, or she did not print them deliberately, but was forced to do so by circumstances.

At a certain stage of currency debasement, further debasement forces itself by the rise in prices, and demands for more such money that debasement causes. In our case, cash to redeem National Savings Certificates and Savings Bank deposits will be forced from the Bank of England as the impoverishment of the people through unemployment, under-employment, and business losses proceeds, and compels the people to turn their savings into cash.

Gold standard legal tender, however, would protect its holders against either contingency. Debasement is palpably precluded from gold standard legal tender, adherence to gold being wholly inconsistent with debasement. Hence gold standard legal tender is inconsistent with any of the circumstances that can force debasement. It is itself the effective insurance against those circumstances, in involving the production of goods and services equal to all demands for payment in gold, and, from that cause, more acceptable than gold, by reason of the profitable trade such goods and services facilitate.

This was all well understood by the first Earl of Liverpool, and is expounded in his book entitled *The Coins of the Realm.* He wrote this book in 1805, and at that time, 124 years ago, he warned us against the so-called new system of buying and

selling genuine or accommodation bills and credits according to supply and demand, as the mode of regulating the foreign exchanges, without strict adherence to one weight and quality of one metal, namely, gold, for every unit of our legal tender currency.

The modern financiers who are bringing us into line with other countries and peoples are therefore merely driving us back to a position against which Lord Liverpool warned us so long ago. And they are making us toe this line, although our handicap is the heaviest taxation in the world.

This system was described by Lord Liverpool in 1805 as follows:—

> "These receipts and this right of making transfers, in some countries called bank money (now probably called various forms of bank bills, telegraphic transfers, notes, deposits, cheques and other paper) are regulated by, and therefore represent, some one of the national coins current in each of these States, exactly according to the standard of their respective Mints: and they are understood therefore to retain, on this account, a certain and undisputed value: and as they are substantially worth more than the defective coins in currency they often bear, in reference to them, a premium or what is called an agio: this agio is occasionally increased or diminished, in proportion to the scarcity and demand for these receipts or transfers. As it is required by the laws of these States that foreign bills of exchange in general, and sometimes other bills of a certain amount, should be paid only in this bank money, it has gradually become the fixed standard or measure, according to which great mercantile payments are principally made. The inferior branches of traffic within these countries are left to be carried on in the coins (or paper money) which are commonly current, whatever may be their intrinsic value."

That is the system Lord Liverpool describes, and it bears

so close a resemblance to the system we have now adopted that this might have been founded upon it. Yet the following is Lord Liverpool's warning to "extensive kingdoms which are at the same time greatly commercial, such as Great Britain":—

> "As a system of the nature before described has never subsisted in Great Britain, and could not be introduced into it with advantage, the coins of the kingdom are necessarily the principal measure of all property, and the instruments of commerce: or, in other words, they are the only legal tender in payment of all sums whatever their amount may be, both to natives and foreigners: and from thence results the necessity in this country of having coins made of one metal only, which should serve as an invariable measure for the purposes above mentioned; and for the same reason these coins should be kept in the greatest possible perfection."

In the new Central Bank system, which we are now asked to merge into a World Central Bank of International Settlements, in a futile attempt to solve our problem, the worst fears of Lord Liverpool have been realized. Foreign bills in currencies admittedly based on only 40 per cent. of gold are being made the basis of legal tender currency, and so is being organized a widespread debacle in which our country must suffer most.

I am in favour of private enterprise and I am not in favour of the nationalization of banks, although I advocate the limited nationalization of productive credit implied by my statement. But if the Bank of England is in favour of the Bank of International Settlements, then it is clear that the time has come for the nationalization of the Bank of England. That privileged private institution has obviously failed in its national duty, if it is willing to place the interests of the people of this country under a foreign financial yoke.

Banking forgot the true gold standard in its eagerness to reduce the ratio of the gold reserve standard of banking credit to cover vastly increased creations of banking credit, as already indicated. The huge deposits could, of course, be lent at increasing rates of interest, and they have been lent as if they were money or equal to money.

Apart from the sheet anchor of gold money, it is admitted that the important factor in a financial system is banking credit.

As money must secure itself by its identity with gold, so credit in financial form must secure itself by identity with other forms of exchangeable property. This property must be not only equivalent in financial value, but it must contain within itself the power to redeem the credit. It must therefore be productive property. It is of the essence of credit that it shall be redeemed, and it must therefore rest on the means of its redemption.

Our credit according to this criterion is in a parlous state. The principal security for loans consists of so-called Government securities which comprise National Debt. This is a general mortgage on all the property of the country, although nearly every property is privately mortgaged to a substantial proportion of its value. The property, moreover, is declining in real productive value, although it is valued for rating and other assessments in our debased currency as if its value were greater than ever before. Some of the loans in respect of which Government securities are deposited are required by persons forced to borrow in order to meet interest, rates, and taxes on their businesses, which, although thus crippled, are alleged to be of greater monetary value than ever before.

Yet these properties are the security for the Government securities and also for loans based on the Government securities. Both of these creations of credit are agents which subtract from the value of the security on which they rest, and neither of them was effected to make the security, or any other property more productive.

The one was created to be consumed in the war; the other was created to be consumed mainly by non-producers in ways adding to producer's costs, and tending to reduce the power of producers to succeed in competition. Imports which cannot be paid for by exports and occasional withdrawals of gold are the result of increasing producers' costs.

Our gigantic debt as a basis of financial credit, our huge annual budget as a charge upon production, the obligations of thousands of millions of pounds of banking credit by deposits payable on demand or short-notice, Treasury bills, National Savings Certificates, and private debt—a state of affairs which requires abounding prosperity to justify it—exist side by side with our competitive industries almost prostrate, with our goods and services at a serious discount in the export trade, with more than a million people constantly unemployed, with employers and employed in key industries at loggerheads, with credit inflation caused by creations of credit to pay interest on the debt as palpably the only means by which the budget is being balanced, with the causes of these difficulties being added to, and with every sign of an approaching unprecedented deadlock in our general economic activities.

We may spellbind the people with propaganda to make them believe that we are drifting in smooth water, but unless we change our course we shall soon be over a cataract into the rapids and broken on the rocks.

The credit structure as it exists at present consists of promises and obligations to pay, and claims to payment of something stated in terms of legal tender. It is mostly credit based on credit, and if all the claims and obligations were reciprocal amongst the same individuals, a clearing house could dispose of them all. But the claims are mostly held by people who need payment, and the obligations are due by other people who cannot pay.

The stage is set for involuntary collapse on the one hand and compulsory collapse on the other.

It is desirable that neither parties should collapse and that a solution of the difficulties of both should be found. Any plan should underpin the existing credit structure and strengthen all its parts, whilst liberating the capacity of the people to build a new structure, a larger and stronger structure to envelop and finally absorb the old one.

My plan consists wholly of a clear recognition in both theory and practice of that difference between actual money and credit which I have endeavoured to emphasize.

It proposes to restore to pre-war conditions the gold content of our legal tender money. It proposes to do away with all fiduciary legal tender and to retain only an amount of legal tender equivalent to the gold we have in the Issue Department of the Bank of England.

In this respect it requires reversion to the Bank Act of 1844 with any modifications in this and any other relevant Acts required to enforce the principle of the convertibility of bank notes into gold, and of the issue of no bank-notes uncovered by gold except to the extent of the time-honoured fiduciary privilege accorded to the Issue Department of the Bank of England up to July 1914.

The various suspensions which caused criticism of the Bank Act have never been necessary. They debased the currency. All that was necessary was an expansion of banking credit—not legal tender—in the Banking Department, to offset the shortage of credit which had been engineered by accident or design.

The plan proposes to withdraw the fiduciary legal tender notes from circulation by legal notice requiring them to be deposited with a bank wherever the holders have a banking account or can most conveniently open one.

In the public interest it is necessary that a cheque currency should reduce to a minimum the need for legal tender money until such time as gold coins can come into free circulation again.

This increase in bank deposits on current account will no doubt lead to an increase in interest-bearing deposits in due course, to the extent that surplus cash is at present carried for substantial periods in the pockets of the people. In the course of business the banks will be unable to refuse to pay interest on time deposits. Hence as the banks will perform a great national service in facilitating the restoration of gold standard legal tender money they should and must be well recompensed.

When the notes are paid into the banks these banks will call upon the Bank of England to honour its promises to pay by handing over relative interest-bearing Government securities to the same amount, and the Bank of England, having thus carried out its promises, will destroy the notes.

The securities will be the Government securities at present held by the Bank against the fiduciary issue, and if they are not interest-bearing they must be made so, the liability being undertaken by the Government, at the current rate of interest on British Government debt.

The banks will duly receive the interest on their holdings of these securities and in due course the securities will be redeemed and cancelled out of funds annually set aside for the redemption of National Debt.

Any fiduciary notes of its own that the Bank of England holds, or receives on deposit, its Banking Department must receive in the same way, exchange into credit, and balance against such credit the modicum of Government securities which will become interest-bearing to the Banking Department of the Bank of England as to the other banks.

The securities will be treated by the banks as if they had been purchased with the credit opened by them in favour of the depositors of the fiduciary notes. The banks will, in effect, have purchased interest-bearing securities, and will have paid for them in banking credit which in theory is as good as gold. In effect, also, the Government will have bought in our debased

legal tender with the issue of an interest-bearing security. The people in general, through the redemption of, and the interest upon, the Government securities, will pay the cost. But the people will receive, immediately and remotely, abundant benefits.

Legal enactment and propaganda will have to be employed to induce the people to use cheques in payment of all amounts in excess of one pound.

Any person requiring payment in legal tender money instead of by cheque would be required to pay a stamp duty of, say, sixpence in the pound up to £100, and threepence in the pound on any excess over £100. On the other hand, the cheque tax should be abolished and the penny postage revived.

The bulk of the legal tender notes permitted by the gold in the Issue Department of the Bank should have a denomination of 5s. This denomination is the most useful for economizing legal tender currency. £1 and 10s. notes are comparatively wasteful.

The cheque currency, five-shilling legal tender notes, and the token silver and copper coinage would then constitute with sterling bills the media of exchange of the country. The notes only would be full legal tender. The silver and copper coins would be limited legal tender on the pre-war basis and former gold exchange standard. Drawers of cheques could avoid inconvenience by getting their cheques certified.

In the early stages of the extended cheque currency the Government could lend help to the banks as to premises by allowing them partial use of the post offices which exist in every part of the country. [Re cheque currency, see Sub-appendix B.]

The money position would then have been put in order. But not the credit position.

The true basis of credit is not gold. It is the machinery for

the production of goods and services at replacement costs of production, and at selling prices, which render the goods and services more desirable than gold, and which all comers and countries are willing to give gold to get, or to obtain which they will exchange in trade anything else that we are willing to accept instead of gold.

Every variety, quality, and kind of productive activity open to us is implied. Therefore, to establish this basis of credit for large issues and make existing credit sound the release of productive activity must be general and means to produce equally so.

Here is evidenced the true function of the gold standard to fix the quality of prices in relation to trade, goods, and services. It encourages every kind of trade by fixing a basis of monetary exchange for all, a basis that answers to the scales and tests of any nation, a basis the price of which is the thing itself, and the price of which can therefore never vary; a basis of price which is an accepted criterion of exchange value in terms of money, a basis which is the commodity against which all other commodities have been measured for exchange by all nations, with few exceptions, throughout historic time. The gold standard is the necessary law of continuous productive activity.

Its postulate is simply that gold is gold. Of this postulate one term is made into money. Then gold is money. This money expresses price. Hence price is gold. Gold price thus means exchange value in gold. Some prices of commodities may not be the true exchange value in gold. But gold is money, price, commodity, and exchange measure and value in one. Hence, if the price of a commodity exceeds gold price, this commodity price implies either debased currency or debased commodity, or both. The commodity price exceeds gold price when the gold equivalent of the commodity price—given the same conditions of supply and demand—will buy elsewhere more of the commodity than is being offered. It is thus that the gold test of price creates trade in all the goods and services

that conform to it and tends to prevent trade in all the goods and services that do not conform to it.

Commodities, whose prices are debased by quotation in an inconvertible paper currency, whose prices, furthermore, include excessive proportions of rates, taxes, and interest, instead of only the commodity quoted for, are obviously unable to conform to the gold test of price and therefore cannot be freely traded in.

That is our position at the present time. That is why we cannot sell our goods and services to an extent to cause an inflow instead of an outflow of gold: and why we are involved in a heavy but futile Bank Rate in efforts to prevent the outflow of gold from being greater.

Gold will be taken abroad if we cannot pay our debts in our goods and services; and, so long as these fall short of the gold test of prices, we cannot.

We are betraying our country and ruining ourselves in neglecting to get abundant supplies of goods and services on a gold footing, in time to meet our obligations with them, as the alternative to having to default for lack of gold.

After establishing our legal tender as gold, we can get our goods and services on to this footing by offsetting in a definite way the charges of excessive interest, rates, and taxes which debase the commodity value in our prices.

We can do this by means of credit created solely to strengthen and extend the productive basis of credit.

We can do it by loans of interest-free credit to the amount of 50 per cent. of the value of all productive plant or fixed capital. The loans would be secured by a first charge on the property in respect of which the credit was created, as distinct from the new property which it would be expended on; unless it was used, as it often must be, to discharge existing interest-bearing obligations on the property giving rise to the new credit.

The expansion of general production, under the all-round application of this cheap credit, would multiply products, and

trade, in goods and services answering to the gold test, in a way which would make the world our eager customer and produce abounding prosperity at home.

Fifty per cent. of the value of all the existing productive plant or fixed capital in the country, including docks, harbours, railways, transport services, shipping, ship-building, manufacturing, agricultural, and other industrials, represents a sum which would worthily offset the effects of our gigantic National Debt.

This vast sum, operated productively, interest-free—a new force in economic activity, moving old investments now dormant from static to dynamic influence—would renew our youth and growth.

It would give to production what the National Debt can only take from production. It would recoup the means to pay which the other exacts. It would cheapen where the other makes dear. It would create a debt to the Government—other than taxation—capable of quickly balancing the debt owing by the Government. It would enable *all* of the people to pay more easily to the Government, the taxation, interest, and sinking funds which the Government has to pay to *some* of the people.

It would be used entirely to add to the foundation of productiveness which underlies our tottering superstructure of credit. It would restore facilities of finance to trade, adequate to counteract the alienation of finance from trade. Even money-lenders and acceptors of bills would again tend to become real merchants and producers. Unemployment would become as extinct as the Dodo.

The existence of this credit, regulated by prices in gold standard legal tender money, would exclude artificial restriction of the quantity and the quality of earnings by wage-earners, because the temptation of great corporations having the power to bring about debasement of the currency would have come to an end, whether for use to nullify the benefits of

grants of higher wages to employees, or to increase the amounts upon which interest would be payable by borrowers.

The funds to provide this interest-free credit for productive loans would be nationally guaranteed credit created, as and when required, at the call of other banks, at the Bank of England, against an interest-free written security signed by the Treasury. These funds would consist of that credit abstraction in financial form which, unacknowledged, plays so important a part in our financial system. They would be funds to enrich the people, set up against the funds already employed which impoverish so many individuals and businesses.

The creation of credit at the Bank of England against the security of a Government's guarantee is nothing new. It is done in the interests of the nation on behalf of the nation as occasion requires. The nation requires such a creation of credit now. But not to squander it. It requires it for creative use in production to multiply the realities of the national income—that is, to multiply the resources from which all the obligations of creations of credit in the past may be met, compatibly with current prosperity and rapid economic development of the people, the country, and the Empire.

When the people's credit—the national credit—has been so used before, the people, the nation, have been charged interest for the use of it. Let that pass. The past is not dead, for obligations must be honoured; but the difference is to be that the new credit will be interest-free to the people in favour of their productive capacity, just as such credit, created *against* the productive capacity of the people, was created interest-free to banks but not to the people.

This is the only way in which the enormous accumulations of interest upon interest in an old country like ours can prevent the country from economic death from interest strangulation.

The interest on the National War Debt was a sudden and powerful tightening up of the grip which it is imperative

should be loosened by a substantial concession of interest freedom. The creation of the productive credit principle for this purpose, is the alternative to getting rid of the incubus by the cancellation of National Debt. It is a plan to create plenty for all instead of the impoverishment of all. It is not a question contingent on argument. It is a question of economic necessity.

The Bank of England itself could not have existed without the privilege of interest-free national credit granted in its early days to the equivalent of the entire amount of its capital fund. The nation to-day cannot carry on unless it is granted that privilege in respect of the capital fund which it has lent to the Government in the form of the National Debt. After lending its capital fund to the Government, the Bank was allowed to print legal tender notes not up to 50 per cent. but to the full amount of its capital fund. It was allowed to use these notes as it liked for any purpose whatever. The difference in the credit I suggest as necessary is that it shall not consist of legal tender notes but of banking credit, and that it shall be conceded only to, and based upon, productive property, getting into circulation only in connection with paying for additions to productive property or in freeing from hampering charges the productiveness of existing productive property.

The definition of monetary inflation accepted in *British Finance*, on page 272 of that publication, is as follows:—

> "Monetary Inflation [for short, Inflation] may be defined as an increase in the aggregate of the elements constituting the immediate available purchasing power of a community not accompanied by a proportionate increase in the total supply of available goods and services continuously at the disposal of the community."

The new credit will avoid inflation by raising now unwanted products to the status of wealth to be converted into productive

capital, thus creating means to provide products in abundance for the increased purchasing (and paying) power that prosperity will promote, through increased and general velocity of circulation of the new credit through banking accounts.

The new credit will be based on the means of its own redemption and be employed to create new means of fortifying and redeeming outstanding credit. The latter will therefore be an addition to the means of redemption of the credit which is already in existence, as a charge against the productiveness of the people. The old credit badly needs this support.

The owner of a property will pay the charges of professional advice in preparing his claim upon the credit fund in a prescribed manner through his local bank, including the provision of certificates of title, value, and profits from various appropriate Government departments already existing.

The local bank will obtain the sanction and guarantee of the Treasury for the loan. A single sum equal to one-twentieth part of the loan will be paid as a Treasury guarantee fee. The fee must precede the loan.

The local bank will then draw on the Bank of England against that guarantee, as its customer draws on the account which the local bank opens for him the cheques to pay for the purposes earmarked for the loan. The local bank will hold as security the documents relating to the property and the Bank of England will hold the guarantee of the Treasury.

To the local bank the customer will pay 1 per cent. for the first year and one-half of 1 per cent. per annum on the full amount of the loan until the last instalment agreed for the redemption of the loan shall have been paid. Over the period this charge will be profitable to the bank. The Bank of England will be paid an agreed sum as management charges for the keeping of the relative accounts, including the new Treasury account arising out of the Treasury guarantee fees.

The loans will be long-term loans ranging from ten to sixty years, according to the nature and circumstances of the

security. No productive instrument or agency will be wholly excluded from the benefit of the plan.

The general effect of the plan will be to tend to reduce the general rate of interest to 3 per cent., that being the approximate total cost of the new loans as made up of Treasury fee, bank charges, and annual redemption instalments over the periods of the loans. But the purchasing power of money will be increased more than pro rata to the difference in the interest. Capital appreciation will also occur.

An abundance of funds will be released for reinvestment as they are discharged from their position as charges on existing properties, and as a result of new conversion schemes of Government debt; but there is abundant scope for new schemes of investment in the economic renewal and development of this country, and in our vast and backward Empire, where funds are badly needed for development, and where we are already being forestalled by other countries.

The limitation of the interest-free national credit plan to 50 per cent. of the value of productive properties only leaves ample scope for the employment of other funds, savings, reserves, etc., in fields of investment for constant development here and throughout the Empire and elsewhere.

Production is the essential of national wealth. It is vital to the growth of wealth that production in general should be free and untrammelled. Where funds are habitually borrowed for use in productive industry, interest, like taxation, eats up national wealth. The interest now levied on production, in addition to the heaviest taxation in the world, is worse than the single tax of the late Henry George, which would have destroyed the production of wealth at its roots. It increases the cash resources required for production and depletes the cash resources in production, promoting a vicious circle of increasing cash starvation.

This was known in early times, and was the reason for the ban on interest imposed by the Church.

Charges on production have always meant the decline of States. To hamper production is to check the production of real wealth. No State having such a policy has survived.

A French writer quoted by Conant in his *Principles of Money and Banking* states:—

> "If a rigid discipline had not prevented the development of usury in the midst of Christian society, and had allowed it to penetrate, for example, into the rural regions, all the fruits of the emancipation of the serfs would have been lost; the great proprietors would have destroyed the independence of the population around them, as in Rome and ancient Greece."

Interest is not vicious in itself as a charge for the loan of actual money or savings. But to multiply money in the form of credit to many times the amount of real money and to charge high interest on this total, and to exact this usury not only from agriculture but from every kind of productive industry is even worse than the Church prohibited.

In agriculture our great proprietors from being successful landlords have become subject to charges which almost eat up the whole of the rent, and many of their farms are practically unlettable, and those farmers who have bought their farms have the greatest difficulty in finding the money to pay the interest on the mortgages they obtained to aid in the purchase of their farms. Agriculture is suffering from cash starvation and cannot afford to pay even the interest for the accommodation for which it is already indebted.

Financial credit, without which the most valuable estates are incapable of maintenance, is so organized that no one can obtain either funds, or anything for the funds, which is not surcharged with interest, in addition to the heavy interest which forms part of the purposes for which general rates and taxes have to provide.

Although all production is thus compelled to pay interest, production alone is capable of ultimately redeeming the credit upon which the whole financial system, including interest and principal, rests. Before our gigantic War Debt was incurred, the country could have struggled on under the system for another sixty years. It cannot do so now. Disaster is imminent unless the system is immediately modified.

Production now must have special exemption in a way which will provide it with funds to repair the serious inroads that have been made upon it.

Interest-free production credit is the solution of the problem.

As gold standard legal tender money is the straight and narrow way to the lasting life of all the economic activities, so financial credit is essential to the necessary magnitude, variety, and scope of these activities.

Financial credit is capable of extension up to the gold value of the means of production. It is unsound credit if it is not represented by such means. These means are different from the products produced by them for consumption. It is in respect of products consumed that created credit should be written off. That is why consumption should not take place on borrowed funds. That is why instalment buying for consumption instead of for production is unsound.

Savings are credits which can be drawn upon in the future, instead of being credits which have been used to consume current or past products. There is no obligation to use savings for productive purposes, or to create further productive property to promote more or cheaper products. The use of savings merely to produce interest, however, would mean the ruin of production in course of time. Interest-free credit for productive purposes is an insurance against that result of savings.

National Savings Certificates apply savings to consumption purposes, impose an interest and principal-charge on the taxpayer, and do nothing towards earning that interest or recovering that principal. National Savings Certificates are

therefore one of the liabilities which the proposed production privilege is necessary to protect.

Beyond scope for these savings to be used for economic investment, there should be no room for such charges against the people. The plan does not go so far as that, however. It would create sound financial credit on existing productive properties to 50 per cent.—i.e. half of their gold value—and lend it free of interest for productive purposes, or for the reduction of production costs to gold standard levels. It leaves the second half of the gold value of even productive properties free for the customary exploitation for interest purposes. In so far as the interest-free loan discharged existing interest-bearing credit, the latter could be used either for second charges or new investments in developments and enterprise at home and abroad.

There it would earn profits or dividends commensurate with the genuine economic work being done by it. There should be no war upon these profits. War upon profits is war upon the people in favour of those who lend to obtain interest, instead of investing for profit.

The general demand for materials, labour, and skill in every kind of economic activity, which would result from the all-round application of productive credit, would tend to mould prices, including wages, to their economic levels. But so long as prices are economic they are sound, whether high or low, and they do not check the sustained flow of supplies, or cause congestion at the points of demand. Prices cease to be economic, however, when they are the outcome of price rings, corners, money fabrication, and selling agency ramps.

An organized price ring is a conspiracy against society. The construction and equipment of railways in this country has suffered severely through price rings, which have made overhead charges far greater than they ought to be.

"Corners" in materials affecting the food, clothing, and shelter of the people should involve confiscation of the

property of the individuals, or groups, guilty of their organization.

A "corner" can be effectively formed through a selling agency or marketing board which gets control of all the producers and dictates the prices at which the producers must sell.

Instalment-selling should be discouraged because it raises prices unduly and dislocates the economic balance of general industry by misdirection of current purchasing power. In sound economic conditions, such as my plan would produce, instalment-selling would decline. People would be able to pay spot cash.

Most of these various organizations have been formed through creations of banking credit based on mere paper securities, and therefore through credit based on credit, which is the trick of finance that has done so much to place the people of this country in the position of interest serfs and has ruined so many innocent investors.

The existence of the National Debt has made the scope for this kind of credit greater than ever. At present the National Debt is a general mortgage on the producer, greater than he can bear, yet the paper representing this is allowed to be used as a basis of further creations of financial credit with which to exact further interest from producers, although they are at their wits' end to keep going, and their borrowings, as time passes, drive them deeper into the mire.

No further creations of credit against mere credit securities should be allowed. No more credit should be granted against paper securities for the purposes of buying Stock Exchange securities for which the buyer has not an unborrowed credit balance to pay. No credit should be used for gambling on differences. All Stock Exchange transactions should be for cash. The free development of the economic activities of the country would provide abundant business for the Stock Exchange other than gambling.

The securities dealt in on the Stock Exchange ought to be a repository of the legitimate savings of the people, and the Government should be directly or indirectly responsible for their safety.

These securities should represent the gold value of such debts as are certain to be paid, or the gold value of economic concerns that are legitimate investments. They should not be counters to be played with by gamblers using other people's money.

The Stock Exchange should be a sort of apotheosis of the Limited Liability Acts which were intended to provide that a worker—using that word in a very wide sense to include members of the professions, etc.—might find the kind of employment congenial to himself, work at that employment, and invest his savings in other forms of work at which others were employed, doing this throughout his working years and finding himself in his old age able to live and support his family on his investments.

Macaulay, Bagehot, H. G. Moulton (an American writer), and others, take for granted this view of limited liability. It arose from a need for more economic use of the savings of the people, who once upon a time would rather hide their savings behind wainscots, or bury them, than lend them out at interest. They were finally tempted, by the promise of their savings being doubled and trebled, to invest them in bubble companies under unlimited liability. The growing need for large capital prompted honest efforts to ensure safety of savings and against further risks. These efforts gave rise to the Limited Liability Acts and well-ordered Stock Exchanges.

The ease with which it has been possible to pyramid credit upon credit so that financial strategists could buy the control of company after company in the formation of both horizontal and vertical trusts has entirely vitiated the wonderful benefits

that might have accrued nationally and Imperially from the Limited Liability Acts. This financial development is the true origin of the trusts, rings, corners, cartels, and so forth which in Germany created the reason for the Great War.

This sort of financial credit development was also responsible for the recent debacle on Wall Street. The development should go no further.

Since the debacle occurred in New York, Attorney-General Mitchell, in a recent speech before the American Bar Association meeting at Memphis, U.S.A., issued the following warning to the financial strategists engaged in Stock Exchange promotions of combines and trusts:—

> "The anti-trust laws are founded on the proposition that avenues of industrial opportunity must be kept as far as possible to the initiative of the individual citizen. The alternative is bureaucratic regulation. That is not an attractive alternative.
>
> "Changes in business conditions and methods of marketing, vertical trusts, chain stores, and other modern developments have come thick and fast, and have been somewhat confusing to those dealing with the anti-trust laws, but I have no doubt that the principles contained in these statutes will be intelligently applied by the courts to the modern conditions."

. . . . .

Outside of the general mortgage of a Government debt, credit should not exist except in relation to specific productive property and its products. Credit which is not so based, and employed, can only be used for lending for interest as its primary object, and for gambling, and these are the direct enemies of sound economic activities. It would not, however have been necessary to create such credit for lending to the State, even in war-time, if the plan proposed had been in operation for a substantial period.

For, under the plan, credits abroad in all countries would have been established through banking arrangements by means of the accumulation of the Treasury Guarantee Fund. The fees to compose that fund are not to be regarded as revenue, except in respect of expenditure in connection with them, such as management expenses and losses incurred. It is not likely, however, that there will be losses in connection with the guarantees.

For this credit privilege, which will attach henceforward to productive property, is never likely to make this property a drug in the market, especially when all its operations are regulated by the gold standard, and it is therefore assured of active service.

The credits abroad that can gradually be established on a great scale, though serviceable in war, will be the greatest possible assurance of peace. Even if this failed, because war had occurred before the accumulations would suffice, it would at least be found that, in consequence of our new economic conditions, the emergency *taxable* capacity of the people had risen to the requirements of the deficiency.

The growth of this credit principle throughout the Empire, in financial association, for the common good, with the Bank of England and the Treasury, would be the strongest possible link between the parts of a rapidly developing Empire. No state or combination of States would wage war against such a commonwealth. The commonwealth, which was doing so well by its citizens, would have no reason to seek disintegration or alternative associations. It would be generally prosperous, as the best market for its own people and the rest of the world both to buy in and to sell in.

It would not be as easy for other countries to imitate the credit plan as it was for them to imitate the machinery by which this country gained so much when steam power was first applied. Other countries would eventually imitate the plan. This would redound to the welfare of mankind. Meanwhile,

against that day, Empire development would provide scope for us for hundreds of years before each large area became as important as the United States has become to-day. Once the United States was as sparsely populated and as poor as any of them. As the Empire developed in this manner we should grow less dependent on any outside traffic.

How different is this prospect from that which lies before us under the present non-productive credit system designed to produce only payers and receivers of interest. This latter is a policy that may be likened to financial cannibalism, an unreasoning economic policy under which consumers generally, including the non-producers, devour the producers, forgetful of the fact that in so doing they must ultimately deprive themselves of their own means of subsistence.

The cost of social services, health and unemployment insurance, and imperative calls on private charity are constantly growing, and, with their growth, industry has not only ceased to expand but has fallen back. Such impediments to our progress could not exist under the plan of interest-free, Government-guaranteed national credit for productive purposes. These impediments would fade away as the plan gained momentum.

Life and property insurance would have infinitely greater scope, for there would be more and better property, as well as more healthy people with premiums to spare, to be insured.

The funds of insurance companies invested within the Empire could then help to accelerate Empire development in productive work in greater safety than can now be claimed for them in non-productive investment at home.

The co-operative movement amongst the nation, through the Treasury, to lend its credit thus for productive purposes would, in due course, balance what the Treasury requires the nation to pay to the holders of the National Debt.

The productive use of what is lent would accumulate the wherewithal to repay the National Debt, to redeem the credit

lent, and to leave the country and the Empire infinitely richer in productivity, superior in standards of living, and generally more populous than it is to-day; our emigrants would be well-to-do people, not paupers, seeking fresh fields of enterprise.

An immediate effect to the common advantage would result from the appearance of the plan on the Statute Book because its advantages would be seen ahead. So much so that the revision of Stock Exchange prices to a yield of 3 per cent., or thereabouts, would require the preventive checks on gambling already suggested.

General production, distribution, exchange, and consumption amongst people with means to pay, imply every kind of employment, even when every kind of labour-saving device has been requisitioned. Good wages would result because high wages in productive work more than pay for themselves when the products have a market.

Advocates of high interest on large amounts of principal, under a policy which takes the foundation from under that principal, are advocating a far worse financial policy than those who advocate low interest on larger amounts of principal, the foundations of which are being made deeper and stronger and broader as time passes. Interest has become such an obsession in this country that the Inland Revenue authorities are charging interest on arrears of taxation, and are thus, as it were, subjecting businesses to a sort of imprisonment for debt.

Those who support high interest as a policy, support a high Bank of England discount rate because the rate of interest generally has come to be regulated as ½ per cent. or 1 per cent. above Bank Rate with a minimum of 5 per cent.

The Bank of England discount rate was never intended to be so used. It was intended to keep the gold par of foreign exchanges from deviating from the gold price of foreign exchange to the extent of the cost and risk of transferring gold with which to balance international trade. When gold par of exchange has become a fiction—that is, when legal

tender currencies have ceased to be true gold standard moneys —the price of foreign paper exchange becomes a question of supply and demand, of adjustments by finance bills, and the borrowing and lending of credits at interest and commissions without regard to any traffic except traffic in loans.

So far as we are concerned, we have come to regard a financial centre as a place where savings and created credits are borrowed and lent—and even assumed without foundation—in order to justify accepting bills on commission. We have lost the conception of a financial centre as the place where *bona-fide* trade is financed on *bona-fide* resources.

Even the Bank Rate is now better understood in France. There, financial institutions are discounting bills on London and New York at 3½ per cent. They allow the bills to mature in London and New York as gold credits, and according to their convenience they take gold, or leave the claims to it to accumulate in their favour, exacting from us meanwhile the high interest that our high Bank Rate enables them to add to these claims to our gold.[1]

If we do not stop this we shall become a vassal of France. We can stop it only by restoring gold standard money by means of the plan proposed, and the adoption of the scheme of interest-free, Government-guaranteed national credit for productive purposes, with the limitation of further creations of credit to specific tangible security, rather than to securities which are themselves only credit.

When this is done the traders, such as wine merchants who now sell their bills on London to the French financial institutions, with and without connections in London, at a discount of 3½ per cent., will cease to do so. They will, instead, sell them without the loss of any discount to French importers who will use them to pay for goods purchased from this country on which they will be able to make a profit in France or in the French colonies.

[1] Later on we parried this move, but too superficially.

At present very few French importers want our goods in the same way as we want the French wines. Our goods are laden with abnormal rates, taxes, interest, and currency debasement, so that their prices make them unprofitable to buyers who have to sell again. Under this dreadful strain, not only will our gold vanish at the time of greatest inconvenience to ourselves, but our national trade will steadily decline and finally collapse.

The plan submitted is the only remedy so long as our gigantic National Debt is in being.

The attempt to promote wealth through compound interest by making lending, instead of trade, into business, is the promotion of a will o' the wisp. The promotion of wealth by constant and effective increases in the means to produce wealth, those means being free to produce wealth that cannot be misappropriated, is no will o' the wisp. That is the only road to general wealth, security, and prosperity. That is the only way to avoid ultimate economic self-destruction through devouring our own progeny.

Advocates of high interest rates who have had influence enough to impose their views upon our financial policy have been guilty of an act equivalent to confiscation of savings to the extent of the depreciation below par of trustee and other traditionally sound securities of a fixed-interest-bearing character at low rates of interest. The *Bankers' Magazine* figures in 1920 showed losses on 387 securities of about £1,000,000,000, of which the losses on fixed-interest securities were £750,000,000. Under the plan the main part of this capital loss would be recovered.

Abundance in the production of wealth on sound economic lines will ensure a golden future as well as retrieve the darkness of the past.

All our products will be welcomed all over the world when we can sell them at prices ruled by the gold standard, and when these prices are reduced by the interest-free plan to the

extent to which they are at present raised by the necessary inclusion of excessive rates and taxes.

The raw materials we have at home will sell to their greatest economic advantage because all the uses to which they can be put will represent so many effective demands for them.

Raw materials from abroad will be equally welcome here in even greater abundance than heretofore. Shipping will suffer no lack of inward and outward freights. Our ports, our railways, all forms of transport will be busier than ever they were. Their accommodation will be too limited. This country's greatest prestige and power, national wealth and general prosperity began with steam power and free trade. This progress was interrupted when finance took to cornering machinery and materials and keeping wage-earners always within sight of want and the workhouse.

The renascence of our prestige and power, wealth and general prosperity will begin with our reversion to gold standard money as money, and the limitation of the basis of credit to our means of production.

Under the plan banking deposits will increase. So will the need for funds to facilitate production and exchange. In these circumstances the banks as well as discount houses should be required to discount all commodity bills of exchange at a discount rate of 3 per cent., on the understanding that in case of need they can rediscount these bills at the Banking Department of the Bank of England at a slight increase in that rate. The discounting must be done in banking credit, not in legal tender currency. There must not be two sets of bills outstanding against the same goods, unless equivalent cover in extra goods or specific property, as distinct from general securities, and not mere signatures, is deposited with the banker. The discounting of bills would assume great proportions in correspondence with a vast increase in commercial transactions.

By productive property, productive plant, productive agents,

productive investments, I mean: drained land, appropriate buildings, machinery, fixed equipment generally, live stock in agriculture such as milch cows for milk supplies, and stock kept for breeding; land, buildings, and equipment of mines—i.e. the fixed capital of mines, not the produce of the mines taken for sale or consumption; manufacturing buildings of every kind, including their sites and equipment, including the minimum stock of materials required to work the machinery when the necessary workers have been assembled to put the concern into operation; warehouse land, buildings, and equipment necessary for storage of goods (including water supplies) during transport stages in seasonal manufacturing and re-exporting processes; land, buildings, and equipment relating to docks, harbours, ports, river works, power stations, canals, etc.; land, buildings, and equipment relating to railways, ships, and other means of productive distribution and exchange of goods and services by way of trade; land, buildings, and equipment necessary to banking and insurance as productive of necessary financial utilities in the common interest; land, buildings, and equipment utilized in business concerns for research purposes plus the skill of the persons engaged in the research work—an insurance policy would be taken out on the lives of the persons on whose skill and knowledge credit had been created in fulfilment of a requirement that all bases of the new credit would have to be insured or insurable.

All constructional industries relating to the production of products—i.e. goods and services for distribution and exchange in production—would be entitled to interest-free, Government-guaranteed national credit up to 50 per cent. of the gold standard value of their land, buildings, and equipment.

No productive concern of a gold standard value of £200 and upwards able to prove its *bona fides* should be legally denied this privilege.

Certificates of title, value, and profits to qualify for the Treasury guarantee, it is suggested, could be issued through

the applicant's banker by existing Government departments relating to valuations, trade, statutory companies, and Inland Revenue.

Some concerns might not need credit although entitled to it. That would prove that they were having the benefit of it in their own funds being put back into their business, as if these funds were interest-free credit, with the added advantage to them that they had no instalments or annual charges to meet.

Other concerns might not be able to claim the credit, because, although they were being worked free of any loan, they could not qualify for the new credit owing to their profits being inadequate. It has been suggested that they would be placed at a further disadvantage compared with others prosperous enough in the same lines of business to obtain the credit. The hardship, however, lies in the opposite direction. It would be wrong to deny a privilege to one who could obviously use it to advantage, merely because the privilege could not be claimed by a rival.

Under the new conditions the general improvement in business would be so great that before long every such concern would be able to qualify for the new credit privilege.

Inability to qualify under such conditions would prove a concern to be either superfluous or ill-fitted to its environment. In such circumstances it would probably be abandoned. This would be no hardship because the superfluous in one direction would find abundant opportunity in other directions, under the greatly increased and diversified supplies of, and demands for, economic activities.

Under existing circumstances many concerns would apparently not be able to qualify for the credit privilege owing to losses being made instead of profits. For example, various municipal undertakings for tramway and electric services are losing money. Where the losses, however, are below the interest charges, and the reduced charges of interest-free, Government-

guaranteed national credit would convert the losses into profits, it is clear that the credit privilege should be granted.

In the case of the tenant-farmer, it is clear that the credit privilege could not be granted to him unless he became the owner, or acquired a long lease, of his farm.

It is clear, furthermore, that the working-farmer and not his landlord should be the beneficiary under the scheme. The farmer should therefore have the right to acquire the requisite tenure, if not by purchase, then by lease at a rental, the amount of which he should be given the right to appeal against, should it appear to be based on any attempt to absorb the benefits of the productive credit privilege.

Landlords generally will gain enormously by the general economic improvement of the country, and they need not be excluded from working farms themselves or becoming partners of working farmers, on fair terms which take primary account of the farmers' skill, knowledge, and work, as well as of the landlord's ownership of the land.

All questions of dispute as to rights to the credit privilege and obligations thereunder should be referable to the courts or to official arbitrators.

The plan calls for an advisory board to consist of experts in agriculture, industry, commerce, transport, finance, and economics chosen from Great Britain, the Dominions, and the Crown Colonies.

The members of the board should be paid.

Their function would be to advise the Treasury as to the economic conditions of the country and to provide information having for its object the avoidance of any excess of credit, or investment issues, being made in any direction already adequately supplied. This would facilitate the flow of credit into new and approved productive directions which the intelligence of the community is capable of devising.

There is little likelihood of any particular form of over-production under this plan because it makes production so general and diversified.

The general freedom, scope, and diversity of production is a certain insurance against unemployment, and would tend rather to produce a shortage of labour. On the other hand, in view of the concentration and capabilities of the latest modern machinery, power, and labour-saving devices, it is not likely that the credit permissible will be capable of outrunning production and inflating prices through excess of purchasing power being in circulation over the output of products available for purchase.

If the plan were extended to each unit of the Empire, then our Treasury Department, the Bank of England, the various banking interests, and the Government in each unit would combine to provide capital funds for the establishment of an Imperial Bank to be linked—it may be as branches—with the Bank of England for the purposes of the plan; and our Treasury would be prepared to issue the same guarantee on the same terms and conditions as at home, the same principles of money and credit being accepted in each Imperial unit.

These principles are:—

(1) That legal tender money shall be gold standard money in full, whatever the total amount of legal tender may be;

(2) That banking credit shall rest upon means to produce real wealth capable of redeeming the credit by its products; and that it shall not depend upon a gold reserve, or upon paper representatives of wealth which are in themselves only credit, even if they are a first charge on the real wealth in question.

On the cost of the scheme to the country the only material expense would be the interest and sinking fund for the service

of the Government securities required in cancellation of the fiduciary legal tender notes, approximately £15,000,000 per annum, plus the cost, if any, of the return to penny postage and the total abolition or reduction to a negligible sum of the cost of cheque books and the stamp duty on cheques.

Against this the National Debt and expenditure would decrease materially. The debt could be funded on a basis of 3½ per cent. or 3¼ per cent., thus saving in due course more than £114,000,000 per annum. But the gain in the purchasing power of money would more than compensate for reduction in rates of interest.

The Civil Services and the cost of the social services would diminish by many millions more.

The yield from income tax at a lower rate would be greater. Every form of taxation, the yield from which is increased by the prosperity of the people in general, would bring in more revenue.

Any discharges from the Civil Services would find employers ready to offer them congenial and profitable employment.

The annual budget surpluses, if taxation were maintained upon anything like its present scale, would liquidate the National Debt in twenty-five years or less, during which period the prosperity of the people and development and safety of the country and the Empire could nevertheless make headway.

This is different from the present system under which the National Debt tends to increase rather than to diminish, and is never likely to be met. If war broke out under our present system with the handicap of this enormous debt and comparatively few credits abroad, the country would be in a most precarious position.

On the other hand, with the plan in operation, the funds discharged from public and private mortgages and the credit circulated in the production of increased means to produce, would provide means of development, distribution, and

exchange at home and abroad which would make our position invincible.

Chronologically, the plan should be applied by steps as follows, although preparations should be immediate and simultaneous:—

(1) Reduction of postal letter rate.

(2) Reduction or abolition of cheque tax.

(3) "Pay-by-Cheque" Campaign and relative enactment.

(4) Currency Conversion Banking Act.

(5) Production Loans Act, with a speedy application of this Act to railways, shipyards, coal, iron, steel, cotton, and municipal undertakings, discretionary powers being given for a time to the Treasury, in issuing guarantees in respect of these productive agencies, to anticipate their redemption power, if their present depressed state disqualifies them from the credit privilege.

In the initiation of the plan, this concession is necessary to the basic industries in order to enable them to lift themselves out of the pit of depression into which the national financial policy since the war has thrown them. Their applications for the credits should be prepared forthwith, simultaneously with departmental, banking, and Parliamentary preliminaries.

(6) A new Conversion 3½ per cent. Loan Issue, at par (for funding the floating debt, and refunding as much as possible of the debts funded at a higher rate of interest) should be set up and kept open until further notice.

(7) With the Stock Exchange provisions *for cash* dealings, and *against* loans for gambling in differences, the plan would then fall into its active and general stride throughout the economic activities of the country, rapidly developing co-ordination between finance and general industry, to their material and lasting prosperity and security.

SUB-APPENDICES

(Referred to in Statement of Evidence)

A.—PRODUCTION AND GOVERNMENT CREDIT

British Finance During and After the War, 1914–21, a volume resulting from investigations and materials collected by a Committee of Section "F" of the British Association, contains a warning which, if it had been heeded, would have enabled a very different Conversion Loan to be issued than that which was recently made, and would have maintained Government credit at the standard contemplated for 1929 when the 5 per cent. War Loan was issued.

The statement now quoted appears on page 135 in the chapter on "Government Borrowings." It reads as follows:—

> "The then outstanding amount of the loans will not, of course, be actually paid off in 1929, but holders will be invited to exchange their holdings for stock or bonds bearing *a lower rate of interest*, objectors being paid off in cash, raised, if necessary, by sales of the new issue in 1929. In connection with the future, it is worth remembering that Government credit at all times is largely governed by the excess of production over consumption by the community. As the excess increases, the rate of interest on gilt-edged securities tends to fall; as the excess diminishes, the rate of interest tends to rise."

If production had been promoted in abundance on the sound lines proposed instead of being discouraged by costs which threw production, consumption by the community, and export completely out of balance, the anticipations of this Committee would have been fully realized.

B.—CHEQUES

On the subject of a cheque currency and the figures of the Clearing House, I draw attention to an attempt to justify the gross debasement of the currency by the excessive issues of currency notes in an Interim Report of the Committee on Currency and Foreign Exchanges, issued on October 29, 1918. It reads:—

> "The greatly increased volume of bank deposits, representing a corresponding increase of purchasing power and, therefore, leading, in conjunction with other causes, to a great rise of prices, has brought about a corresponding demand for legal tender currency which could not have been satisfied under the stringent provisions of the Act of 1844. . . .
>
> Plainly, given the necessity for the creation of bank credits in favour of the Government for the purpose of financing war expenditure, these issues [currency notes] could not be avoided.

If they had not been made, the banks would have been unable to obtain legal tender with which to meet cheques drawn for cash on customers' accounts. The unlimited issue of currency notes in exchange for credits at the Bank of England is at once a consequence and an essential condition of the methods which the Govern ment have found necessary to adopt in order to meet their war expenditure."

Now the issue of legal tender currency notes in excess of a full holding of gold was not only unnecessary but disastrous. Irrespective of the effects of supply and demand on prices, unlimited depreciated legal tender raises prices to the dizziest heights. Witness the flight from the mark.

Large bank deposits commensurate with the quantity of goods and services sold to the Government were inevitable, and, of course, they would constitute purchasing power, and raise prices commensurately with their quantity in relation to the quantity of appropriate purchaseable things on offer, and in demand. But the degree of that purchasing power was reduced, and prices were uneconomically raised, by the debasement of the currency, i.e. by issues of the fiduciary currency notes, which, in further raising prices, were their own cause of further issues.

The ultimate effect of this was to increase our cost of the war by several thousands of millions of pounds in strict accordance with the acknowledged principle that inconvertible paper legal tender currency cannot but raise prices.

British Finance, page 227, states definitely, in comparing the dead-weight Debt before and after various wars, that

"the enormous cost of the Great European War was largely due to unprecedented inflation of credit and currency."

The extension of the cheque currency to its fullest scope for the operation of the Bank Deposit purchasing power would have avoided these excessive issues of notes. The resources of the Clearing House, with emergency arrangements in France, would thus have prevented excessive demands for legal tender by the banks having to be met. Instead of encouraging the use of cheques, however, the stamp duty on them was doubled and postal rates were increased. The cheque currency was therefore deliberately discouraged and a vicious monetary expedient preferred. Despite the proved viciousness of this policy, it is still in force against the people of this country.

It is necessary to abandon this policy by the cancellation of fiduciary legal tender to ensure sound money, by the promotion of a vast increase in economic means to produce real wealth of every kind to support sound credit, and to develop a vast increase in actual production of such wealth to insure the redemption of credit.

That is the only way to avert financial collapse, and to reverse the economic conditions which are still with us, and which were described in March 1921 in the *Monthly Bulletin of Statistics*, issued by the Supreme Economic Council as affecting the world. That statement reads as follows:—

"The most recent statistics available afford some indication of the seriousness of the industrial depression prevailing throughout the world. The production of such important commodities as coal, pig-iron, crude steel, and sugar are considerably below the quantities available in the year 1913. Shipbuilding is stagnant. Imports and exports measured by value show a declining tendency. Orders are held back in view of the present high prices and in anticipation of material reductions in the near future. The fall in freights and the decline in cargo offering have caused shipowners to lay up many vessels. In most countries the amount of paper money in circulation has undergone but little reduction. Unemployment is serious in extent and in magnitude and appears to be increasing. Wage reductions and the working of short time are reducing the purchasing power of the people in many countries."

C.1—EVIDENCE OF ABANDONMENT OF TRADE AS THE SUPPORT OF OUR FINANCIAL POSITION

and of the slender thread by which our gold reserve is hanging.

C.2—EVIDENCE OF EXPANSION OF CREDIT IN 1928 TO AVOID BUDGET DEFICIT

Both C.1 and C.2 are exemplified by the following paragraph which appeared in the issue of the *Financial Times* of Tuesday, December 10, 1929:—

"Sterling opened the week in a firm tone, and both dollar and franc continued to move in our favour. The dollar rate reached 4.88 3-8, at which figure it is definitely profitable to import gold if loss of interest is left out of consideration. Whether or not there will be a gold influx from New York in the immediate future depends entirely upon the Midland Bank, as probably no other institution is prepared to ship gold without allowing for loss of interest. In the summer of 1928 such transactions were actually carried out, but towards the end of the year no bank is particularly anxious to reduce its liquid resources to any extent. The object of the shipments of last year was to bring about an expansion of credit, while in the present circumstances there can be no question of any credit expansion. The result of an additional influx would be merely to enable the Bank of England to maintain its note reserve at a reasonably high figure during the end-of-year pressure."

NOTE.—Productive credit under the plan would enable us to sell to U.S.A. an abundance of goods and services at gold prices, the excess of which over imports from U.S.A. would be paid for by U.S.A. in gold or claims to gold equal to imports of gold. The restoration of gold standard money under the plan would dispense with the need of these "arranged" gold shipments by any bank. The policy of the Midland Bank is patriotic, but no single institution with the help of all our financial institutions combined has resources enough to acquire all the gold that will be necessary to support our financial system if our monetary system is not reconstructed. This reconstruction of our monetary system, however, is impossible without adoption of the complete Plan of Production Loans.

D.—DEBASEMENT OF LEGAL TENDER MONEY

1.—From *Fiat Money in France*, by Andrew D. White:—

"What the bigotry of Louis XIV and the shiftlessness of Louis XV could not do in nearly a century was accomplished by this tampering with the currency in a few months. Everything that tariffs and custom-houses could do was done. Still, the great manufactories of Normandy were closed, those of the rest of the Kingdom speedily followed, and vast numbers of workmen in all parts of the country were thrown out of employment. . . . In the spring of 1791 no one knew whether a piece of paper money, representing 100 francs, would, a month later, have a purchasing power of 100 francs or 90 francs or 80 or 60. The result was that capitalists declined to embark their means in business. Enterprise received a mortal blow. Demand for labour was still further diminished. The business of France dwindled into a mere living from hand to mouth. This state of things, too, while it bore heavily against the interests of the moneyed classes, was still more ruinous to those in more moderate, and most of all to those in straitened circumstances. With the masses of the people the purchase of every article of supply became a speculation—a speculation in which the professional speculator had an immense advantage over the ordinary buyer. Says the most brilliant apologist for French Revolutionary statesmanship, 'Commerce was dead: betting took its place.' "

2. The effect of bad coinage upon both industry and trade are vividly portrayed by Macaulay as follows:—

"It may well be doubted whether all the misery which had been inflicted on the English Nation in a quarter of a century by bad kings, bad ministers, bad Parliaments, and bad judges was equal to the misery caused by bad crowns and bad shillings. Those events which furnish the best themes for pathetic or indignant eloquence are not always those which most affect the happiness of the great

body of the people. The mis-government of Charles and James, gross as it had been, had not prevented the common business of life from going steadily and prosperously on. While the honour and independence of the State were sold to a foreign power, while chartered rights were invaded, while fundamental laws were violated, hundreds of thousands of quiet, honest, and industrious families laboured and traded, ate their meals, and lay down to rest, in comfort and security. But when the great instrument of exchange became thoroughly deranged, all trade, all industry, were smitten with a palsy. The evil was felt daily and hourly in almost every place and by almost every class, in the dairy and on the threshing floor, by the anvil and by the loom, on the billows of the ocean, and in the depths of the mine. Nothing could be purchased without a dispute. Over every counter there . . . was wrangling from morning to night. The workman and his employer had a quarrel as regularly as the Saturday came round. On a fair day or on a market day the clamours, the reproaches, the curses were incessant: and it was well if no booth was overturned and no head broken. No merchant could contract to deliver goods without making some stipulation about the quality of the coin in which he was to be paid. Even men of business were often bewildered by the confusion into which all pecuniary transactions were thrown. The simple and the careless were pillaged without mercy by extortioners, whose demands grew even more rapidly than the money shrank The price of the necessaries of life, of shoes, of ale, of oatmeal, rose fast. The labourer found that the bit of metal which, when he received it, was called a shilling, would hardly, when he wanted to purchase a pot of beer or a loaf of bread, go as far as a sixpence."

3.—From Moulton's *Financial Organization of Society*:—

"Since the World-War, nearly every continental European country has passed through experiences similar to the foregoing. Investors have seen the accumulated savings of a lifetime evaporate within a relatively few months of currency disorganization. The salaried classes have been reduced to actual starvation: and the wage-earning groups have suffered almost as much notwithstanding the practice of adjusting wages to weekly changes in the purchasing power of money. When the price of a meal rises 10 per cent. between the first and second courses, as was the case during the rapid currency depreciation in Germany, it is clear that price indexes are rather difficult to keep pace with."

4.—Ricardo says:—

"Experience, however, shows that neither a State nor a bank ever has had the unrestricted power of issuing paper money without abusing that power: in all States, therefore, the issue of paper

money ought to be under some check and control: and none seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes, either in gold coin or in bullion." [Despite these words Ricardo is often quoted as approving a paper system like our present one.]

E.—GRESHAM'S LAW

Sir Thomas Gresham (1519–79) was an ambassador and an English merchant. In 1552–74 he was Royal agent, or King's factor, at Antwerp. His advice to Queen Elizabeth to restore sound money has by later economists been properly called "Gresham's Law." He devoted his great wealth to public uses. He built the Royal Exchange (1566–71) for London merchants and also established and endowed Gresham College. His Law that "bad money drives out good" was first used in the Proclamation of 1560 respecting the decrial of base silver coin. Sir Thomas Gresham took an active part in this vital question in advising Queen Elizabeth.

Gresham's Law was acknowledged by statesmen of the calibre of Montague and Somers, and of philosophers like John Locke and Sir Isaac Newton, in 1696. In that year, in order to remedy the neglect of it, Sir (then Mr.) Isaac Newton was given the appointment of Warden of the Mint for the great work of re-coinage to cure the debasement which was shaking the State to its foundations—although the debasement was less than the like evil besetting us to-day.

Macaulay says:—

"Sir Isaac Newton devoted himself to his task with an activity which left him no time to spare for those pursuits in which he had surpassed Archimedes and Galileo. Till the great work was completely done, he resisted firmly, and almost angrily, every attempt that was made by men of science, here or on the Continent, to draw him away from his official duties."

No stronger proof of the necessity for an unquestionable measure of value in the shape of money for the expression of prices was ever given than the work of Sir Isaac Newton at the Mint, nor of the importance which a man of his distinction and disinterestedness could attach to it in the interests of the nation. Yet he had his traducers amongst those in favour of debasement of the currency because they were profiting by it despite the miseries which it wrought amongst the people.

Though he was the greatest mathematician of the age, and perhaps of all time, it was said of him by Pope:—

"Sir Isaac Newton, though so deep in algebra and fluxions, could not readily make up a common account; and, whilst he was Master of the Mint, used to get somebody to make up the accounts for him."

This puerile attack either proves the simplicity of the poet Pope, in practical affairs, and his incapability of seeing into a mind conscious of the necessity of a fixed standard of value; or it proves that Pope was dishonest, as has been alleged, and could easily be bribed to belittle those in favour of strictly honest dealing.

As Macaulay truly says:—

> "Some of the statesmen with whom Pope lived might have told him that it is not always from ignorance of arithmetic that persons at the head of great departments leave to clerks the business of casting up pounds, shillings, and pence."

Englishmen in favour of Gresham's Law may still prefer to err with Sir Isaac Newton rather than to shine with present and past Treasury officials who have had so much to do with the continuance and aggravation of the debasement of our currency.

It was on the recommendation of Sir Isaac Newton, in 1717, that our gold coin was fixed at 123·27 grains of gold eleven-twelfths fine, although it was not made the legal standard of our money and prices until "the law of 1816, which gave England the Gold Standard and simply recognized in law what had been the fact prior to the suspension of cash payments."

W. F. Spalding in *The Functions of Money* rightly says of Gresham's Law:—

> "The working of the law is seen when applied to the relative circulation of two kinds of metallic money, or even of metallic money and paper. In this case it is found that the relatively cheaper medium of exchange [*paper at present*] will be returned in circulation whilst the relatively dearer money will be withdrawn and hoarded."

In England to-day "the relatively dearer money"—obviously gold—is not only being withdrawn but it is also being hoarded, and hoarded abroad rather than at home. Witness France, Germany, U.S.A., the Argentine! Witness also the palpable defeat of the Bank of England in its efforts at hoarding which stress the patriotic, but futile, efforts of the Midland Bank to save the situation by importing specially arranged consignments of gold.

Gresham's Law, to the mind of Sir Isaac Newton, proved the necessity of a fixed, invariable metal standard coin, irrespective of whether it was made legal tender or not—its general acceptance without enforcement by law being the proof of its fitness to function as the standard of value for all media of exchange. The term "Media of exchange," here used, as distinct from "standard of value," means not only financial credit instruments like cheques, notes, bills, etc., but goods and services also in the course of trade or exchange.

The coin which is the standard value is also qualified to serve as a medium of exchange for the reason that all the other media, in a sound monetary system, are, of necessity, on a par with it. Our gold sovereign was the standard policeman which kept the traffic in exchange of goods and services through the media of credit instruments regulated by gold, although gold itself actually took a negligible part in it compared with the tens of thousands of millions of pounds in goods and services that were exchanged annually by means of credit instruments with gold prices as the standard of exchange value.

To pretend that we have a gold standard of value now, or that we really own any gold at all, having regard to foreign claims upon the gold reserve of the Bank of England, is farcical. To pretend that we have any but a paper standard of value in the regulation of our trade, whether home or foreign, is equally farcical. The Act of 1925, miscalled the Gold Standard Act, by which Mr. Churchill ensured that foreigners could take gold instead of our paper, was also farcical.

Under Gresham's Law the gold was bound to go. To stop it would have meant national starvation and bankruptcy. Think, then, of the humour of Parliament sitting solemnly to pass an Act to permit of its departure!

We may make our own people part with concrete values and actual services for bits of worthless paper, but we cannot make foreigners do so.

What nobody here seems to realize is that the fact that we rate our home goods and services and property as monetarily equivalent to intrinsically worthless paper is a fact that will in due time make them worth no more than worthless paper. As the gold goes, the small marginal value of our paper money will vanish. This will further debase our paper money standard of value, and raise our prices higher.[1] The cost of living will rise and the purchasing power of earnings will fall. More debasement, more paper money, more taxation to balance a growing budget, more commercial and industrial disturbance, and the state of financial affairs that preceded the French Revolution will have arrived here!

We have gone through the farce of placing a restriction upon the amount of paper money that we propose to permit. £260,000,000[2] is the "unconsidered" trifle!

Fancy sane men really supposing that we can in fact set going the printing press and on so many bits of paper bring into being £260,000,000 of sound standard of value money.

The Treasury discovered something wrong with the pretension, and, by a little legerdemain, converted its 260,000,000 Treasury notes into 260,000,000 promises by the Bank of England to pay £260,000,000. But these promises to pay are made into legal tender money, and,

[1] Or destroy demand in trade. [2] Now £275,000,000.

therefore, our standard of value now consists of promises to pay money which the Bank does not possess and in respect of which it is short of gold to the extent of 260,000,000 times 123·27 grains of gold eleven-twelfths fine—unless the word "pound" has lost its monetary meaning.

If the pound has lost its former meaning, we are clearly on a paper standard of value, with the absolute certainty that a paper money debacle lies before us. Restriction of paper money, except by equivalence with gold, becomes impossible. Even Ricardo says:—

> "Experience shows that neither a State nor a bank ever has had the unrestricted power of issuing paper money without abusing that power: in all States, therefore, the issue of paper money ought to be under some check and control."

But what check and control? He continues:—

> "None seems so proper for that purpose as that of subjecting the issuers of paper money to the obligation of paying their notes, either in gold coin or in bullion."

Even as a medium of exchange, therefore, an orthodox economist like Ricardo believed that paper money should be freely convertible into gold, and that any excess not so convertible came within the category of calamitous paper issues.

Have we no money trust waiting for the loot of our tragedy, loot far greater imperially than Germany could provide?

Take this quotation as a reply. It is from *Readings in Money and Banking*, by Chester Arthur Phillips (page 606), published by Macmillan:—

"HAVE WE A MONEY TRUST?

"If by a 'money trust' is meant—

> An established and well-defined identity and community of interest between a few leaders of finance which has been created and is held together through stock holdings, interlocking directorates, and other forms of domination over banks, trust companies, railroads, public service, and industrial corporations, and which has resulted in a vast and growing concentration of control of money and credit in the hands of a comparatively few men—

your Committee has no hesitation in asserting as the result of its investigation that this condition, largely developed within the past five years, exists in this country to-day.

What exists in America exists here too.

When it is realized that under Gresham's Law every grain of gold will inevitably part company with a currency that includes an issue

of 260,000,000 inconvertible legal tender paper notes; that the Bank of England is therefore bound to lose its gold; and that with that gold will disappear the entire reserve against thousands of millions of pounds' worth of financial credit and all the productive utility of the fixed capital of the country; one may well regard with dismay the utter indifference of Parliament to the gravest monetary situation that this country has ever had to face.

Gresham's Law is stated, by those who profit by debased money, to serve the purpose of gold money in so far as it is not redundant. But what is the test of its redundancy? The test of its redundancy is its excess over gold. Thus the contention proves debasement in our legal tender currency to the extent of £260,000,000.

There are many forms of permissible paper credit, but paper legal tender money not covered in full by gold is not one of them.

A description of the horrors of such a paper money debacle as is almost within sight of us would fill many pages in connection with French assignats, American War of Independence and Civil War notes and recent German marks. All of these paper issues had to be abolished by Government action, though this was done *after*, instead of *before*, the misery was brought upon the general public. In Germany 100,000,000,000 (one hundred thousand million) marks came to be worth only one penny.

The German people had no Empire to lose, but all the concrete values within the German frontiers fell, clear of debt, into the hands of its money trusts as a result of this debacle. The money trusts profited by a crisis which inflicted most harrowing suffering upon the wage-earning and salaried classes. When the paper was left in the hands of the people, and everything else in the hands of the trusts, nothing of value could be obtained at any paper price.

Unlike Germany, we have an Empire to lose, as well as what is left of value in our country.

When the Bank of England is willing to issue 260,000,000 bits of paper as legal tender pounds—with full knowledge of what it is doing—can we say that any higher principles are governing our monetary policy than governed the policy of the Bank of Germany between December 1918 and December 1923?

We are losing our gold for the same reason that Germany lost hers at that time, and she still had over £23,000,000 in gold when 100,000,000,000 marks would buy only one pennyworth of food. She had £63,000,000 in gold when the debacle began."

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